BUSINESS RECORDKEEPING GUIDE

Even though Congress has repealed the contemporaneous recordkeeping requirement, you still must maintain adequate records to substantiate your deductions. This recordkeeping requirement applies to both the standard mileage rate and actual expense methods of deducting vehicle expenses. A prudent taxpayer using the standard mileage rate should keep detailed records for each business vehicle used including, among other things, the date the car was placed into service, the total number of miles driven during the year, the number of business miles driven during the year, and whether the vehicle was used for commuting to and from an office and, if so, the average daily round trip commuting distance and total commuting distance for the year. If you use the actual expense method, in addition to the above, your records should contain all costs of operating the vehicle including the cost of gas, oil, maintenance, repairs, insurance, interest, licenses, garage rent, parking and tolls. Receipts should be obtained and retained to support the deduction of these expenses.

BUSINESS USE OF A VEHICLE You must maintain a log and make the following entries for each business use of the vehicle:

1. The date of the trip.
2. The odometer reading at the start of the trip.
3. The odometer reading at the end of the trip.
4. The business purpose and destination of the trip.

You must also record your odometer readings on the first and last days of the calendar year.

BUSINESS MEAL EXPENSES

You can deduct the cost of meals only if your business trip is overnight or long enough to require you to stop for sleep or rest to properly perform your duties. You cannot deduct the cost of meals if it is not necessary for you to rest. If you pay for a business meal when you are not traveling, you can deduct the cost only if you meet the rules for business entertainment.

The expense of a meal includes amounts you spend for your food, beverages, taxes and tips relating to the meal. You can deduct either the actual cost or a standard amount. You can deduct only 50% of the cost of your business-related meals unless you are reimbursed for these expenses. This limit applies whether the unreimbursed meal expense is for business travel or business entertainment.

You cannot deduct expenses for meals to the extent they are lavish or extravagant. An expense is not considered lavish or extravagant if it is reasonable based on the facts and circumstances. Expenses will not be disallowed merely because they are more than a fixed dollar amount or take place at deluxe restaurants, hotels, night clubs or resorts.

Standard Meal Allowance You generally can deduct a standard amount for your daily meals and incidental expenses while you are traveling away from home on business. Incidental expenses include costs for laundry, cleaning, and tips for services. This method replaces the actual cost method. It allows you to deduct a set amount, depending on where you travel, instead of keeping records of actual meal expenses. If you use the standard meal allowance you still must keep records to prove the time, place and business purpose of your travel. The standard meal allowance fluctuates and is determined according to the city in which the meal takes place.

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BUSINESS RECORDKEEPING GUIDE (CONTINUED)

BUSINESS MEALS WHEN NOT AWAY FROM HOME OVERNIGHT

You can deduct 50 percent of the cost of business meals if you (or an employee of your business) are present at the meal, and the food or beverages are not considered to be "lavish or extravagant." The meals can involve a current or potential business customer, client, consultant or a similar business contact. **Business entertainment is no longer deductible.** In the case of food and beverages provided during or at an entertainment activity, the 50% deduction will be available if the food and beverages are purchased separately from the entertainment, or the cost of the food and beverages is stated separately from the cost of the entertainment on one or more bills, invoices, or receipts. The entertainment disallowance rule may not be circumvented through inflating the amount charged for food and beverages.

BUSINESS GIFTS

You can deduct no more than $25.00 for business gifts you give, directly or indirectly, to any one individual during your tax year. A gift to the spouse or child of a person with whom you are doing business is a gift to that person unless the spouse has an independent bona-fide business connection with you.

To claim a business gift deduction you must obtain a receipt and document:

1. The cost,
2. The date you gave the gift,
3. A description of the gift,
4. The reason for giving the gift or the business benefit gained (or expected to be gained) from giving it, and
5. The occupation or other information about the person receiving the gift, including name, title, or other designation to establish the business relationship to you.

HOME COMPUTER and CELLULAR TELEPHONE

Your use of the home computer and/or cellular telephone must be:

1. For the convenience of your employer, and
2. Required as a condition of your employment.
3. A log must be maintained detailing the date, type of use (business or personal), and length of use.

BUSINESS TRAVEL You must prove:

1. Each separate amount you spent for travel away from home, such as the cost of your transportation or lodging. You may total the daily cost of your breakfast, lunch, dinner and other incidental elements of such travel if they are listed in reasonable categories, such as meals, gas and oil, and taxi fares.
2. The dates you left and returned home for each trip, and the number of days spent on business away from home.
3. The destination or the area of your travel, described by the name of the city, town or similar designation.
4. The business reason for your travel or the business benefit gained (or expected to be gained) from your travel.

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BUSINESS RECORDKEEPING GUIDE (CONTINUED)

BUSINESS USE OF YOUR PERSONAL TELEPHONE LINE

You cannot deduct any charge (including taxes) for basic local telephone service for the first telephone line to your residence, even if it is used in a trade or business. Any business related long distance calls are deductible and must be traced via the itemizations appearing on your phone bill. In order to deduct the business portion of local phone service, you must have a log with calling detail sufficient to prorate the expenses between business and personal.

You may fully deduct any separate telephone line that is used entirely for business purposes. This includes fax and modem lines. Any number that is used entirely for business should be registered in the name of your business.

OFFICE-IN-THE-HOME

You may deduct certain expenses for the business use of your personal residence only if that part of our home is used regularly and exclusively as:

1. Your principal place of business for any trade or business in which you engage, or
2. A place to meet or deal with your patients, clients or customers in the normal course of your trade or business.

Your home office will qualify as your principal place of business if: (1) the office is used exclusively and regularly for administrative or management activities of your trade or business and, (2) there is no other fixed location where you conduct these activities. If you are an employee, the business use of your home must be for the **convenience of your employer**.

Limit On Deduction: Deductions are limited to your net income from the business (gross income less deductions attributable to the business). As to the **exclusive use** requirement, the IRS will accept any "separately identifiable" area as a home office.

The following information must be retained in order to calculate an Office-In-The-Home deduction:

1. The total square footage of the area used exclusively for business.
2. The total square footage of the living area of the home or apartment.
3. Real estate taxes paid on the property during the tax year (Form 1098).
4. Mortgage interest paid on the property during the tax year (Form 1098).
5. Electric bills paid on the property during the tax year*.
6. Gas (heat) bills paid on the property during the tax year*.
7. Homeowner's or renter's insurance premiums paid on the property during the tax year*.
8. Rent paid on the property during the tax year*.
9. The original purchase price of the home, less the value attributable to the land, plus permanent improvements made to the home since its purchase (Settlement Statement).

* Receipts or canceled checks must be kept to support these deductions.

Beginning in tax year 2013, you may use a simplified option for calculating your office-in-the-home deduction. Under this option, you can deduct $5 per square foot of home used for business (maximum

300 square feet). Your allowable Office-in-the-home-related itemized deductions (ex. mortgage interest, real estate taxes) are claimed in full on Schedule A. No office-in-the-home depreciation deduction is allowed.

You may choose to use either method on a year-by-year basis. Once you choose a method for that tax year, you cannot change to the other method for that tax year.

IN GENERAL

You must keep proof to support your claim to a deduction as long as your income tax return can be examined. Generally, it will be necessary for you to keep your records for 3 years from the date of filing your income tax return on which you claimed the deduction. A return filed early is considered as filed on the due date.

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