



# LYNCO

## Financial & Tax Services, Inc.

Lynn A. Schmidt, EA, CTP, CTC, CFS, CSA, ARA

917 Keith Lane, Auburndale, FL 33823

Phone: (863) 295-9895, Fax: (863) 298-8299

[www.LyncoFinancial.net](http://www.LyncoFinancial.net)

[www.TaxPlannerFL.com](http://www.TaxPlannerFL.com)

[www.LyncoTax.com](http://www.LyncoTax.com)

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### News You Can Use

#### ***Business Travel & Related Meals vs Business Meals***

#### **WHAT IS really deductible?**

As an **Enrolled Agent**, a **federally licensed tax expert**, **Certified Tax Planner**, and a **Certified Tax Coach** Lynn believes in keeping taxpayers informed with the most updated information available. Please review the information that has been provided, and call our office at (863) 295-9895 should you have questions or need professional assistance with tax planning or any other IRS or tax matters.

Travel expenses are the ordinary and necessary expenses of traveling away from home for your business, profession, or job. You can't deduct expenses that are lavish or extravagant or that are for personal purposes.

You're traveling away from home if your duties require you to be away from the general area of your tax home for a period substantially longer than an ordinary day's work, and you need to get sleep or rest to meet the demands of your work while away.

Generally, your tax home is the entire city or general area where your main place of business or work is located, regardless of where you maintain your family home. For example, you live with your family in Chicago but work in Milwaukee where you stay in a hotel and eat in restaurants. You return to Chicago every weekend. You may not deduct any of your travel, meals, or lodging in Milwaukee because that's your tax home. Your travel on weekends to your family home in Chicago isn't for your work, so these expenses are also not deductible. If you regularly work in more than one place, your tax home is the general area your main place of business or work is located.

In determining your main place of business, take into account the length of time you normally need to spend at each location for business purposes, the degree of business activity in each area, and the relative significance of the financial return from each area. However, the most important consideration is the length of time you spend at each location.

You can deduct travel expenses paid or incurred in connection with a temporary work assignment away from home. However, you can't deduct travel expenses paid in connection with an indefinite work assignment. Any work assignment in excess of one year is considered indefinite. Also, you may not deduct travel expenses at a work location if you realistically expect that you'll work there for more than one year, whether or not you actually work there that long. If you realistically expect to work at a temporary location for one year or less, and the expectation changes so that at some point you

realistically expect to work there for more than one year, travel expenses become non-deductible when your expectation changes.

Travel expenses for conventions are deductible if you can show that your attendance benefits your trade or business. Special rules apply to conventions held outside North America.

Deductible travel expenses while away from home include, but aren't limited to, the costs of:

1. Travel by airplane, train, bus, or car between your home and your business destination. (If you're provided with a ticket or you're riding free as a result of a frequent traveler or similar program, your cost is zero.)
2. Fares for taxis or other types of transportation between:
  - The airport or train station and your hotel;
  - The hotel and the work location of your customers or clients, your business meeting place, or your temporary work location.
3. Shipping of baggage and sample or display material between your regular and temporary work locations.
4. Using your car while at your business destination. You can deduct actual expenses or the standard mileage rate, as well as business-related tolls and parking fees. If you rent a car, you can deduct only the business-use portion for the expenses.
5. Lodging and non-entertainment-related meals.
6. Dry cleaning and laundry.
7. Business calls while on your business trip. (This includes business communications by fax machine or other communication devices.)
8. Tips you pay for services related to any of these expenses.
9. Other similar ordinary and necessary expenses related to your business travel. (These expenses might include transportation to and from a business meal, public stenographer's fees, computer rental fees, and operating and maintaining a house trailer.)

## **So, what constitutes “travel away from home”?**

For that discussion, we often look to what constitutes your “tax home.” A tax home is the general locality of an individual's primary place of work. It is the city or general vicinity where his or her primary place of business or employment is located, regardless of the location of the individual's residence. An individual's tax home has an effect on his/her tax deductions for business travel.

The tax home determines whether business expenses for transportation, meals, and lodging will be treated tax-free. The Internal Revenue Service (IRS) considers an employee to be traveling away from home if his business obligations require him to be away from his tax home for a period longer than an ordinary work day. If an employee works in New York City, for example, but lives in New Jersey, the tax home is New York City. In this example, travel, meals, and lodging expenses in New York City cannot be deducted, since that is the individual's tax home. Travel expenses to New Jersey on the weekends cannot be deducted since they would not be work-related expenses. If the same worker travels for work to Chicago, however, any travel, meals, and lodging expenses may be deducted.

Some people, due to the nature of their jobs, work in more than one place. For such a worker, e.g. an independent consultant, their tax home is the general area where their main place of business or work is located. A taxpayer's main place of work is determined by how much time they spend at each

location for business purposes, how much work they do in each place, and how much money they earn in each place. Of the three, the most important consideration is the length of time spent at each location.

For workers, such as healthcare workers, that have no fixed workplace and travel to numerous locations for work assignments, the IRS considers their tax homes as their city of permanent residence or where they regularly live. A taxpayer that has neither a main place of business nor a place where s/he regularly lives is considered an itinerant. The tax home of an itinerant, such as an outside salesman, is wherever s/he works since s/he is never really away from home, which means that s/he cannot write off any travel expenses.

The above discussion relates to travel-related meals and expenses. What if you're NOT traveling, just having a business meal with a client, prospect, or colleague?

The IRS issued Notice 2020-39 on 2/24/2020, [proposed regulations](#) on the business expense deduction for meals and entertainment following changes made by the Tax Cuts and Jobs Act (TCJA).

The 2017 TCJA eliminated the deduction for any expenses related to activities generally considered entertainment, amusement, or recreation. It also limited the deduction for expenses related to food and beverages provided by employers to their employees.

These proposed regulations address the elimination of the deduction for expenditures related to entertainment, amusement, or recreation activities and provide guidance to determine whether an activity is considered to be entertainment. The proposed regulations also address the limitation on the deduction of food and beverage expenses.

The proposed regulations affect taxpayers who pay or incur expenses for meals or entertainment. These proposed regulations generally follow [Notice 2018-76 \(PDF\)](#), issued on October 15, 2018, which provided transitional guidance on the deductibility of expenses for certain business meals.

So what does all this really mean? Until further guidance is issued, taxpayers may deduct 50% of allowable business meals if:

1. The expense is an ordinary and necessary expense under IRC 162(a) paid or incurred during the taxable year in carrying on any trade or business;
2. The expense is not lavish or extravagant under the circumstances;
3. The taxpayer, or an employee of the taxpayer, is present at the furnishing of the food or beverages;
4. The food and beverages are provided to a current or potential business customer, client, consultant, or similar business contact; and
5. In the case of food and beverages provided during or at an entertainment activity, 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.

It all sounds VERY confusing doesn't it? But it's just a simple meal....what's the big deal? The big deal is it's NOT just a meal. It's potentially thousands of dollars of expenses deducted by a taxpayer who "thinks" these expenses are deductible. Are they? Are you meeting the proper criteria for actually deducting these expenses and meeting the required documentation rules?

Don't be confused into thinking - well, everybody does it! No, they don't. Do you want to risk the added expenses related to an actual IRS audit or investigation if there is an inquiry by the IRS or other regulatory agency into what may be considered "excessive" deductions in the area of travel or meals expenses? Is it worth the risk?

**Wouldn't you rather focus on careful and strategic planning opportunities to actually reduce your taxable income to the lowest LEGAL amounts possible?**

**A professional review of each situation can and should be the first course of action.**

As an Enrolled Agent (America's Tax Expert) and a *Certified Tax Coach*, it's my job to take a proactive approach with clients by performing a comprehensive and expert analysis of their tax situation and utilizing the current tax code to uncover opportunities which could potentially empower them to have a positive impact on future tax outcomes. In-depth planning is not something that can be done "after-the-fact" during tax season; that is to say – simply reviewing history. My job is to help you "write history." I hope that the information provided to you encourages *YOU* to be proactive and inspires you to **reduce your tax burden!** We love tax questions and look forward to sharing our knowledge and expertise with those that want to help themselves.

**Don't let the rules and regulations become your tax nightmare! If you have questions on the above material or would like to schedule an appointment to review how you may take advantage of the many tax-saving strategies and opportunities which are available, call me today! I will be glad to schedule your personalized tax planning session.**

***If you found this article useful, please do not keep it a secret. Share it with a fellow business owner. Remember, friends don't let friends **OVERPAY THEIR TAXES!** I ask Better Questions – I provide Better Strategies!***

Sincerely,



**Lynn A. Schmidt, EA, CTP, CTC, CFS, CSA, ARA**  
*Enrolled Agent, Certified Tax Planner, Certified Tax Coach*  
*Financial & Tax Strategist*