

How To Deduct Expenses Without Keeping Receipts

The mantra of tax record keeping has remained relentlessly burdensome for decades: "No Receipt, No Deduction".

But fear not, you who loathe the never-ending climb up the mountain of paperwork required by the U.S. tax code. Many of our most beloved tax rules have exceptions, and such is the case with this one.

Believe it or not, there are actually expenses you can legally deduct without a receipt. Here's one for self-employed folks who travel out-of-town on business.

When it comes to deducting your meals while on an overnight business trip, you have two options with regard to receipts and record keeping:

OPTION #1:

You keep your receipt from each meal and simply deduct the cost of the meal times 50%, a la the "No Receipt, No Deduction" rule.

OPTION #2:

You use The Per Diem Method to determine your meal deduction. For each day of the trip, you are allowed a daily meal allowance, depending on what part of the country you were visiting.

For example, the per diem meal rate for Birmingham, AL is \$56. For San Francisco, it's \$71. Like Option #1, your actual deduction is 50% of the per diem amount -- \$28 in Birmingham and \$35 in San Fran.

To find the per diem allowances, go to IRS Publication 1542 – Per Diem Rates (For Travel Within the Continental United States). You can access it here: <http://www.irs.gov/pub/irs-pdf/p1542.pdf>. If a particular area is not listed, then the allowance is \$46 per day.

Take note: There are two very nice benefits to The Per Diem Method.

Benefit #1: You don't have to keep receipts for your meals. Yep, you can pitch 'em. Scouts honor.

Benefit #2: It doesn't matter how much you actually spend on meals, you still get to deduct 50% of the per diem amount. This can result in hundreds of dollars in tax savings for you.

Example: You regularly go to several cities for overnight business trips, traveling about five days each month. These cities all have a per diem rate of \$51.

You are frugal. To save both time and money, you prefer to eat at fast food restaurants three times a day. On average, you spend only \$20/day on meals.

But the per diem rate is \$51/day. If you used Option #1, your actual deduction would be $\$20 \times 50\%$, or \$10/day. With Option #2, you get to deduct $\$51 \times 50\%$, or \$25/day.

The difference between Option #1 and #2 is \$15/day. Over the course of the year, this adds up to an extra \$900 in deductible meal expenses ($\$15/\text{day} \times 60 \text{ days}$) -- even though you didn't actually spend the \$900.

End result: you save \$315 in taxes (assuming your combined federal and state income tax rate is 35%). And you can throw away 60 days worth of meal receipts.

So you get \$315 in tax savings without spending a dime.

One final note: The per diem method is only available to Sole Proprietors and Partners. If your business is a Corporation and you own more than 10% of the company stock, you can't use the per diem method for yourself. Sorry!