

# Records needed for business travel

The IRS is tough on deductions for travel expenses. Without the proper records to back up your claims, it might reduce or completely deny your write-offs. And it usually doesn't help to throw yourself on the mercy of the Tax Court.

The taxpayer in a new case, a movie producer, ran into this problem. He failed to substantiate his meals and lodging expenses while he was traveling away from home on business. At least the Tax Court allowed a deduction for an amount based on the per diem rates in effect for the tax year in question. (*Cristo*, TC Memo 2017-239, 11/29/17)

*How it works:* In lieu of deducting actual expenses, your business can use the per diem rates allowed for government employees under a simplified "shortcut" method.

For 2018, the rates for specified high-cost areas in the continental U.S. is \$284 (up from \$282), consisting of \$216 for lodging and \$68 for meals and incidental expenses (M&IE). The per diem for all other locations is \$191 (up from \$189), consisting of \$134 for lodging and \$57 for M&IE.

**Facts of the new case:** The taxpayer spent significant time traveling on business for the movie company in 2002, mostly trying to secure funding. Because the budget was a concern, he saved money by staying with his ex-wife or aunt instead of running up large hotel bills. In return, the taxpayer purchased groceries and housekeeping supplies.

During 2002, the taxpayer stayed with his ex-wife for 167 nights and 21 nights at his aunt's place. He claimed to have spent over \$4,400 and argued that he should be allowed to deduct this amount in lieu of lodging. Finally, he also said that he was entitled to deduct M&I expenses of more than \$8,300 using the per diem rate in effect for 2002.

Unfortunately, however, the taxpayer failed to properly substantiate the travel expenses. Notwithstanding his payments for groceries and supplies, the IRS determined that his deduction should be limited to 50% of the per diem amount for 2002. Now the Tax Court has sided with the IRS. Accordingly, the deduction is limited to 50% of the per diem amount.