Employee Expense Rules and Substantiation Requirements

Under the Internal Revenue Code (IRC) business meals, lodging, and incidental expenses incurred while traveling away from home are deductible if properly substantiated.

In the alternative taxpayers have the option of keeping the actual records of travel expenses or utilizing IRS provided per diem allowances instead to substantiate business travel expenses, although we suggest that all travel expense records be kept as the IRS during audit have been more aggressive as to allowing the alternative methodology.

Within the continental United States, different per diem rates have been established for the many different localities to which an employee may travel.

These simplified per diem rates are available as well for employers to utilize in reimbursing employees for expenses incurred during business travel away from home have recently been updated by the IRS.

For travel within the continental United States (CONUS) taxpayers has the option of using the published per diem rates provided by the IRS as long as those procedures are consistently applied, in other words one method should be applied all year long. One should not attempt to utilize the receipt method for some travel, and the CONUS method for others.

IRS auditors look heavily at travel data such as flight records, hotel reservations, and other information to corroborate the dates of travel, therefore it is important that all records be kept in case questioned as to your business travel.

In addition, the IRS is now inquiring more extensively as to the purpose of any travel to verify that the business expenses claimed are exclusively related to business travel as opposed to any amounts expended for personal reasons, such as that trip to Italy recently.

We would be happy to answer any questions and discuss your options in greater detail.