



2017

INCOME TAX GUIDE FOR WASHINGTON LEGISLATORS

WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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WASHINGTON
SOCIETY
OF
CERTIFIED
PUBLIC
ACCOUNTANTS

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Dear Washington State Legislator:

This tax guide has been designed to answer specific questions about federal income tax treatment of travel and other expenses arising from your unique position as a legislator. It does not deal with itemized deductions of a personal nature or expenses of other businesses. We suggest that you direct other tax or accounting questions to your Certified Public Accountant. Should you need the services of a local CPA, the Washington Society of CPAs will be happy to assist you.

Please note that this guide reflects tax law changes through November 30, 2017. It does not reflect, though, the final tax bill reconciliation. If this is your first year in the legislature, this will be a handy resource as you set up your record-keeping for the 2018 tax year.

IRS Form 2106 and its instructions will be available soon and can be found at www.irs.gov/form2106.

Any questions regarding material in this guide should be directed to a Certified Public Accountant or to the WSCPA for a referral.

Your service to Washington State is highly regarded by our members, and we sincerely appreciate this opportunity to be of service to you.

Best regards,

A handwritten signature in black ink that reads "Kimberly Scott".

Kimberly Scott, CAE
President & CEO

A handwritten signature in black ink that reads "Lisa Thatcher".

Lisa Thatcher
WSCPA Lobbyist

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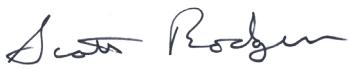
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INTRODUCTION

Greetings from the 2017-2018 WSCPA Taxation Committee. We have prepared and updated this tax guide with the hope it will provide useful information to you in preparing your 2017 Federal Income Tax Return.

As an employee of the State of Washington, you are entitled to deduct on your federal income tax return expenses that are ordinary and necessary in the performance of your duties. These expenses are deductible, to the extent they exceed allowances and reimbursements, only as miscellaneous itemized deductions. Also, these expenses are deductible only to the extent that your total miscellaneous itemized deductions exceed two percent of your adjusted gross income. The appropriate form for reporting your ordinary and necessary business expenses is Form 2106, Employee Business Expenses. A copy is attached.

This guide is not intended to cover all tax matters related to your individual tax return. Items of a personal nature or tax matters unrelated to your position as an elected official are not covered.



Scott D. Rodgers, CPA
Chair, WSCPA Taxation Committee



Micki A. Hazen, CPA, CGMA
WSCPA Taxation Committee

RECORDKEEPING

A recurring element of this presentation is the emphasis placed on recordkeeping, which has taken on a greater importance than ever before. The burden of proving the propriety and amount of deductions is on the taxpayer. Therefore, it is imperative to keep sufficiently detailed records. Failure to adequately support a deduction can result in its disallowance. Substantiation requirements are discussed and shown in detail in the Recordkeeping section.

TAX HOME

Before you calculate your deductible travel and living expenses, you must first determine where your "tax home" is located. If your principal residence is more than 50 miles from the state capitol building, you may make a special election to determine your tax home. The effect of this election is discussed in detail in the Living Expenses section.

This booklet assumes that your tax home is not Olympia. Thus, the answers to questions about travel expenses while away from home will not apply if you normally reside and work within 50 miles of the capitol.

In any event, you should consult with your Certified Public Accountant about the application of any of the rules discussed in this booklet.

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For purposes of Public Disclosure laws in Washington, this document is provided to you for informational purposes only. It is not a gift by definition and is of nominal value.

AUTOMOBILE AND TRANSPORTATION EXPENSES

Q. How much can I deduct for the automobile expenses I incur traveling to and from Olympia?

- A. Your deduction for automobile expenses can be either in the form of the federal standard mileage rate, or your actual automobile expenses times your business use percentage. The business use percentage is computed by dividing your total business miles by total miles driven during the year. For 2017, the standard business mileage rate was 53.5 cents per mile. For 2018 the standard business mileage rate is expected in December 2017.

Q. If I choose to use actual automobile expenses as a deduction, what expenses are included?

- A. You may deduct: the business percentage of gasoline, oil, lubrication, repairs, maintenance, tires, supplies, insurance, depreciation, and other expenses incidental to maintaining and operating your business automobile.

Interest paid on a loan incurred to purchase an auto used in connection with the business of being an employee is considered personal interest and is not deductible per IRC 163(h)(2)(A).

Q. Which method will result in a greater deduction — the standard mileage allowance or the business percentage of actual expenses?

- A. In general, you will be able to get a greater deduction if you use actual expenses, but this method requires more recordkeeping. You should compute your deduction under both methods in the first year that you use an automobile for business and use the one that gives you the greater deduction.

Q. Are there automobile expenses I can deduct in addition to the standard mileage allowance?

- A. Yes. You can deduct auto tabs, parking fees, tolls and ferry costs related to business even if the allowance method is used.

Q. If I deduct actual expenses on my automobile for one year, can I use the allowance method in a later year?

- A. No, unless you use the standard mileage allowance method in the first year that you use an auto for

business, you must use the actual expense method in all years. If you use the allowance method, you are allowed to switch in a later year to the actual expense method, but you must use the straight line method for depreciation.

Q. What if I use more than one car for business use?

- A. If you use more than one car for business use, the mileage rate applies to the combined business miles for both automobiles.

Q. How do I figure the depreciation deduction for my automobile?

- A. If an automobile is used more than 50 percent for business, an accelerated method of depreciation may be used. If an automobile is first used for business in 1987 or after, the method is double declining balance over a five-year life with a half-year of depreciation in the first year. If the automobile is used less than 50 percent for business, the straight line method must be used. Note that depreciation is also subject to the luxury auto limitations.

If the business use falls to 50 percent or less during a subsequent year, part of the depreciation claimed in prior years is recaptured and the straight line method of depreciation must be used during the remainder of the recovery period.

Section 179 deduction for SUVs, trucks and vans. The limit is \$25,000 for vehicles with a gross vehicle weight of more than 6,000 pounds placed in service in 2017. Certain full-size pickup trucks (but not SUVs) qualify for a Section 179 deduction equal to the full cost of the vehicle. Consult your CPA for more details.

Depreciation limit on luxury cars. As a result of longer depreciable lives and the "luxury car" limits, depreciation on vehicles placed in service after 1986 will be limited.

The luxury rules do not apply to a SUV, truck or van with a loaded weight more than 6,000 pounds.

Form 4562 contains instructions for computing depreciation on automobiles. Because of the complexity of these provisions and some exceptions to the rules, you may wish to consult with your CPA to determine the proper depreciation deduction for your automobile.

Q. What other mileage expenses can I deduct?

- A. You may deduct the cost of non-reimbursed transportation between two places of business (e.g., the State Legislature and another business or occupation) provided such trips are necessary to discharge business at both places.

As a Legislator, you will usually incur a great deal of mileage expenses while representing your legislative district. All travel costs to meetings where you will speak or which are necessary to attend because of your position are tax deductible. The mileage may be substantial, particularly if your district is geographically widespread, and you must keep a record of such mileage (see Recordkeeping Requirements, page 15). In addition, you may deduct mileage incurred on fact-finding trips.

Q. I have an office in my home district. Can I deduct the mileage expense from my home to this office?

- A. No. The mileage from residence to place of business is not deductible. It is considered a non-deductible commuting expense. However, mileage between two places of employment is deductible.

Q. While the legislature is in session, I sometimes drive or take a taxi from the hotel to the capitol. Can I deduct this as a business expense?

- A. Yes. If Olympia is not considered your tax home, business transportation between your hotel and the capitol is not considered commuting. Consequently, you may deduct such transportation expenses.

Q. If I use another mode of transportation to get to Olympia such as bus or airplane, can I deduct these expenses in addition to my mileage expense?

- A. No. You cannot claim both the mileage you would have incurred had you driven an automobile to Olympia and the cost of the bus fare or airplane ticket. If you use a bus, airplane, or other means of transportation to Olympia, these expenses should be detailed on Form 2106.

Q. On occasion, I ride with another legislator to Olympia. Can I still claim a tax deduction for the mileage even though I did not drive my own car?

- A. No. When you ride with someone else and do not incur any transportation expense yourself, you cannot claim any mileage for that day's travel.

However, you may deduct any out-of-pocket costs you pay to the driver as long as it is not part of normal commuting between your tax home and work.

Q. What about mileage expenses incurred while going to meetings during my re-election campaign? Although I am running for re-election, I still feel I must attend these meetings to explain to my constituents the activities of the Legislature.

- A. The Internal Revenue Code specifically states that campaign expenses are not tax deductible. Because of this, it is very important for you to distinguish between those expenses which are directly attributable to serving your constituency and those directly related to your campaign (see questions under Campaign Contributions and Expenditures section).

Q. How do I report my mileage or automobile expenses on my tax return?

- A. You are considered an employee of the state. All mileage expenses or automobile expenses are reported on Form 2106, Employee Business Expenses. Form 2106 and instructions for completing the form are included in this booklet to assist you in understanding these questions and answers, and in properly reporting your tax deductions on your federal income tax return. Please see Recordkeeping Requirements, page 15 for specific information required to be reported on your return.

The state pays you certain specified allowances for your expenses. In order to assure compliance with IRS regulations, you should submit Form 2106 with your tax return showing allowances received and expenses incurred. You should report those allowances which were either not reported to you on Form W-2 or were reported to you in Box 14 of Form W-2. Any excess of allowances over expenses is included in income, while any excess of expenses over allowances is deducted on Schedule A as a miscellaneous itemized deduction and is subject to a two percent of adjusted gross income limitation.

LIVING EXPENSES

Q. How do I report living expenses incurred while attending sessions in Olympia?

- A. If you make the election to be deemed away from home, the IRS will consider you to have spent a prescribed amount per day, and documentation of expenditures is not required.

Without the election, you must document actual expenditures subject to IRS rules. Remember that the special election is available only if your residence within your legislative district is more than 50 miles away from the capitol.

Q. How do I make the election to be deemed away from home?

- A. You must attach a statement to your return with the following information:
- Your name, social security number and address within the legislative district you represent.
 - Identify the election.
 - Indicate that the election is being made under Internal Revenue Code Section 162(h).
 - Specify the period for which the election is made and the property to which the election is to apply.
 - Provide the information necessary to show that the taxpayer is entitled to make the election.
 - The distance from your residence to Olympia.

BE CAREFUL: The election must be made each year. You may make the election any time up to three years after the due date of the return. Once made, the election can be revoked only with the consent of the IRS. A sample election statement is included below.

State Legislator's Election to
Treat Residence as Tax Home
John Q. Public
120 Orchard Street
Mt. Vernon, WA 98273
SSN 121-18-3965
Form 1040, Tax Year Ending 20xx

Taxpayer, a state senator/representative, elects to treat his residence, located at the address shown above, as his tax home pursuant to Code Sec. 162(h). His place of residence is within the xxth district, which is the legislative district that he represents. The residence is more than 50 miles from the capitol building of the State of Washington.

Q. Assume I make the election, what do I report?

- A. You are deemed to be away from home on business each day that the Legislature is in session (including any day in a recess period that lasts four days or less), and each day that the Legislature is not in session, but your attendance is formally recorded at a committee meeting. Let's call these "legislative days." For each legislative day you are presumed to have spent the greater of two amounts on living expenses:

1. The federal per diem allowance for Olympia-Tumwater. The 2017 rates are as follows:

Date	Lodging	Meals/Incidentals	Total
Jan-Sep	103	69	172
Oct	112	69	181
Nov-Dec	128	69	197

2. The actual amount of state per diem allowance, which may not exceed 110 percent of the federal amount.

NOTE: The actual per diem allowance for both federal and state does vary with location. Consult a tax advisor for the applicable per diem allowance or find the federal rates on the internet at <https://www.gsa.gov/travel/plan-book/per-diem-rates> and the state rates at www.ofm.wa.gov.

If the amount of the deemed living expenses computed under the election exceeds the amount you have been reimbursed, then the excess must be allocated between meals and other travel expenses in accordance with the ratio of meals and other travel expenses under the federal per diem reimbursement rules. 2017 ratios are as follows:

Allocation of Excess

Date	Lodging	M&I
Jan-Sep	59.9%	40.1%
Oct	61.9%	38.1%
Nov-Dec	65.0%	35.0%

The unreimbursed amount allocated to meals would be reduced by \$2 per legislative day, and the amount allocated to lodging would be 100 percent deductible. Both the lodging and meals are miscellaneous itemized deductions subject to the two percent of adjusted gross income floor.

If you spend more than the deemed expenditure under this standard the excess is non-deductible. Report both the deemed expenditure and the amount of reimbursement on Form 2106.

- Q. Now assume that I do not make the election. What requirements do I face?**
- A. Without the election, you must account for actual expenses and actual reimbursements. Any excess of one over the other creates deductible expenses or taxable income as appropriate.
- Q. What may I deduct for living expenses incurred while attending sessions in Olympia?**
- A. You are allowed to deduct the actual rental payments, including any taxes, service charges, utilities, etc. that you may incur.

If you share facilities with others, you may deduct your share of these expenses. This is the case even though the facility is not used, as long as it is maintained in order to fulfill your duties as a member of the Legislature. In any event, you must keep a record of the actual expenses.

Additional deductible expenses include the cost of meals and snacks if you stay overnight in Olympia. If you prepare your own meals, the cost of groceries, etc. is a deductible expense.

If the state provides you with an apartment and the rent you pay is less than fair market value, the difference must be included in taxable income.

The total amount of deduction for meal expenses will be limited to 50 percent of the amount spent (see discussion of the 50-percent rule under Entertainment Expenses section).

Incidental expenses not subject to the 50-percent rule, such as laundry and cleaning, are also deductible. Again, adequate records and receipts must be maintained (see Recordkeeping Requirements, page 15).

- Q. While in Olympia, I stay and take many of my meals at a private club. May I deduct the cost of my dues, meals, lodging and related expenses?**
- A. Your meals (subject to the 50-percent rule) and lodging are deductible as already discussed. Most club dues are not deductible.

NOTE: The election to be deemed away from home on business with its given amount of living expenses is limited. Expenditures in excess of the applicable per diem amount are not deductible. You should carefully weigh the alternative, and if your actual out-of-pocket expenses are expected to exceed the deemed expenditure, you should keep detailed records and report the actual amounts and reimbursements.

ENTERTAINMENT EXPENSES

- Q. What are the criteria for deducting entertainment expenses, including meals?**
- A. The criteria are that expenditures have a business purpose and that you and the persons entertained have a business relationship. If a business discussion does not take place during the entertainment, it must at least directly precede or follow the entertainment.
- Note in your records the time, place, duration, persons and a description of the nature of the business discussed.
- Q. What limitations are placed on the deductible amounts of meals associated with entertainment expenses?**
- A. You are limited to a deduction of 50 percent of the total cost of the meal including taxes and gratuities. Additionally, the allowable 50 percent is then aggregated with all other miscellaneous itemized deductions such as tax preparation fees, contract collection fees and safe deposit box fees. Total miscellaneous itemized deductions are further limited to an amount that exceeds adjusted gross income by two percent.
- Also, your meal expenses must not be considered lavish or extravagant under the circumstances, and you (or one of your employees) must be present when the food or beverage is served.
- Q. What are some examples of deductible entertainment expenditures?**
- A. As mentioned above, entertainment expenses which are directly related to your duties as a State Legislator are deductible subject to other rules. This includes expenditures for such items as cover charges for admission to a night club, the amount paid for a room used for a dinner or cocktail party, or the amount paid for parking at a sports arena.
- Certain entertainment expenditures are exempt from the 50-percent rule. This includes, but is not limited to, traditional recreational expenses for employees (for example, the cost of a year-end holiday party or a summer outing). This rule applies only to persons who are considered your employees and not employees of the state.
- NOTE: See Recordkeeping Requirements, page 15, for a discussion of substantiation requirements.

OFFICE EXPENSES

Q. Under what circumstances can I claim expenses of my home as a business expense?

A. Generally, no deduction will be allowed with respect to expenses of your personal residence unless a portion of the residence is used exclusively and regularly as your principal place of business and the state does not provide an office or other fixed location for your use.

Q. Can I deduct salaries paid for administrative and clerical assistance?

A. Yes, salaries and payroll taxes paid in connection with your legislative activities are a deductible expense, reportable on Form 2106. If you hire someone, such as a full-time or part-time secretary, to assist you in legislative matters and the handling of constituent questions and complaints, the compensation paid is deductible.

If you pay salaries, you must obtain federal and state identification numbers and report and pay payroll taxes. For details on the proper accounting and tax reporting of federal payrolls, see IRS Publication 15 or consult your Certified Public Accountant.

Q. If I have a legislative assistant in my district who works for only a token amount each month, am I required to go through the process of filing payroll taxes?

A. In most situations, all amounts paid for services are subject to the payroll tax laws. However, there are some exceptions, such as in the case of an independent contractor. Since each situation is decided on its particular facts and circumstances, you may wish to consult your Certified Public Accountant to evaluate the situation for you.

Q. I maintain a rented office in my district for the purpose of serving my constituency. What expenses can I deduct for the cost of maintaining this office?

A. If the office is being used exclusively for legislative purposes, all expenses related to this office (rent, utilities, depreciation on improvements and equipment etc.) are deductible.

However, to the extent that the office is used during your campaign for re-election, that portion of the total expense is not deductible. Campaign contributions may be used to offset these campaign office expenses. (See the Campaign Contributions and Expenditures section below.)

CAMPAIGN CONTRIBUTIONS AND EXPENDITURES

- Q. Are campaign contributions taxable income to me?**
- A. No. Political contributions used for campaign expenses are not included in gross income. However, contributions that are used for any purpose other than campaign expenditures must be included in the candidate's taxable income.
- Q. Is it permissible to commingle political funds with personal funds?**
- A. No. If funds are commingled making tracing impractical, the entire fund will be presumed devoted to personal use and deemed taxable income to the candidate.
- Q. What is the tax rule regarding "presumption against unrestricted gifts?"**
- A. The IRS will presume, in the absence of evidence to the contrary, that contributions to a political candidate are political funds and are not intended for the unrestricted personal use of the recipient. If, in fact, the funds are intended for your unrestricted use you must be able to substantiate the claim.
- Q. I receive campaign contributions through a committee that was formed for my candidacy. Are contributions made to this committee taxable to the committee?**
- A. No. A political organization is not taxed on "exempt function income." Exempt function income includes contributions, membership fees, and proceeds from a political fundraising or entertainment event, or from the sale of political campaign material.
- The law's definition of "political organization" includes a party, committee, association, fund or other organization which has been organized and operated primarily for the purpose of accepting contributions or making expenditures on behalf of candidates for local public offices. See the discussion later in this section regarding the reporting requirements for a political organization.
- Q. How are contributions of property, such as stocks and bonds, reported?**
- A. The fair market value of the property on the date of the contribution is considered to be the cash value of the contribution.
- Q. I occasionally receive contributions which I do not spend immediately. These contributions are left in an interest bearing checking account until needed. Is the interest on this account taxable?**
- A. Yes. Interest earned on bank deposits of contributions, cash dividends received on contributed securities, and net gains realized on sales of contributed securities are included in gross income. Expenses connected with such income are deductible.
- Q. How is taxable income, such as investment income, reported?**
- A. If such income is received and controlled by you individually, the income must be reported on your income tax return.
- If such income is received by a political organization, that organization must report the income on a special corporation income tax return, Form 1120-POL.
- Q. If I personally pay some of my campaign expenses, are these deductible on my individual income tax return?**
- A. No. Campaign expenses paid from a candidate's private resources are not deductible on your personal tax return. However, a political organization may reimburse you for those expenses and may deduct those on its corporate return.
- Such expenses include the cost of attending political conventions, contributions to the party which sponsored the candidacy, expenses of campaign travel, campaign advertising, expenses of successfully defending a contested election, filing fees, or the cost of legal fees paid in litigation over redistricting.
- Q. What kind of expenses may be paid from campaign contributions?**
- A. Expenditures properly payable from campaign contributions include amounts:
- Used for generally recognized campaign expenses regardless of when such expenses were incurred;
 - Contributed to the national, state or local committee of the candidate's party, or;
 - Used to reimburse the candidate for out-of-pocket expenses paid during a current campaign, or if not currently campaigning, during the last previous campaign.

- Q. What if I refund the unused contributions to persons who I know contributed to my campaign?**
- A. Refunds of unused contributions that are repaid to known contributors are not taxable income to the candidate.
- Q. What reporting is required for a political organization?**
- A. Such an entity is taxable as a corporation, and Form 1120-POL must be filed annually. The return is due on or before the 15th day of the third month after the end of the taxable year.
- Q. What are the recordkeeping requirements for political funds?**
- A. Detailed records must be kept by the political candidate or other custodian to account accurately for the receipt and disbursement of political funds. Otherwise, contributions may be taxed on your individual return, and campaign expenses would be non-deductible.

ADVERTISING EXPENSES

- Q. Because I am a member of the Legislature, I am often called upon to buy ads in trade journals, magazines, etc., published by various organizations in my district. Can I deduct the cost of these ads?**
- A. Yes. It is important that you, as a public official, support worthwhile business and community activities in your district. It is necessary that you keep your name before the public.
- However, it is advisable that any ads taken during a re-election campaign be paid for by campaign contributions since they may be disallowed if audited by the IRS.
- Q. Because I am a member of the Legislature, I am asked to purchase tickets for and attend many dinners within my district. Can I deduct the cost of these dinners on my personal tax return?**
- A. Yes. However, some dinner tickets may be subject to the 50-percent rule previously discussed. Incidental costs, such as transportation and parking are fully deductible. Consult your CPA for further guidance.
- Q. I buy calendars, pens and similar items bearing my address and phone number which I pass out to my constituents as a means of advertising and to encourage them to contact me when I can be of service. Can I deduct the cost of such items on my personal tax return?**
- A. Yes. This activity has a business purpose, but as indicated above, during re-election campaigns these expenses should be paid for by campaign contributions since they may be disallowed if audited by the IRS.
- Q. Are these expenses subject to additional limitation?**
- A. Yes. These expenses will appear as miscellaneous itemized deductions on your tax return and will be limited to the amount in excess of two percent of your adjusted gross income.

TELEPHONE EXPENSES

- Q. Can I deduct the cost of my personal residence telephone in my district? I use it for calling and receiving calls from constituents and for other state business.**
- A.** The basic cost of the telephone is an expense that you would incur whether or not you were a member of the Legislature. It is a personal expense and, therefore, non-deductible.

Calls charged in excess of those covered by the basic rate are a deductible expense if they are business calls. If you have a telephone installed exclusively for business use, the entire cost of this telephone would be deductible. Long distance telephone calls and telegrams that relate to legislative business are a deductible expense. An answering service or a tape recording device for telephone messages is also deductible if related directly to legislative business.

- Q. Can I deduct my cellular telephone expenses?**

A. Yes, to the extent you are conducting legislative business, you may deduct the cost of the telephone as well as the monthly plan and calling charges.

- Q. Are these expenses subject to an additional limitation?**

A. Yes. These expenses will appear as miscellaneous itemized deductions on your tax return and will be limited to the amount in excess of two percent of your adjusted gross income.

OTHER EXPENSES

- Q. What other expenses can I deduct on my tax return?**
- A.** Other deductible expenses you are likely to incur as a member of the Legislature are:
- Stationery, postage and office supplies related to your position as a member of the Legislature.
 - Dues to organizations you have joined because they are helpful to you as a Legislator. An example is a civic organization (not a social club). Dues to organizations of which you were a member before elected to public office are deductible if business related.
 - Publications, including books, newspapers and magazines which you purchase to assist you in your work as a Legislator. Expenses of this nature incurred for personal reasons are non-deductible.
 - The cost of Christmas cards for persons with a business relationship to you.

- Cost of newsletters sent to constituents.

- Fees paid to Certified Public Accountants and others for services relating to business taxes.

- Q. Are these expenses subject to an additional limitation?**

A. Yes. These expenses will appear as miscellaneous itemized deductions on your tax return and will be limited to the amount in excess of two percent of your adjusted gross income.

- Q. Can I deduct my monthly internet expenses?**

A. Yes, to the extent you are conducting legislative business and keeping in touch with your constituents. Note that much like telephone expenses, a portion of your internet expenses are inherently personal. Accordingly, the portion of internet fees that are attributable to business use is deductible.

RECORDKEEPING

- Q. How must travel, entertainment, business gifts, use of automobiles and certain other business expenses be substantiated?**
- A. Substantiation requirements consist of adequate records or sufficient verbal or written evidence, corroborating your own statements.
- Written evidence accumulated at the time of the expense is superior to written evidence obtained after the fact. Additionally, written evidence in any form is superior to verbal evidence.
- Q. Which elements of an expenditure must be substantiated?**
- A. Who: Person who traveled, persons entertained, etc.
What: Amount of each separate expenditure.

When: Time of travel, entertainment or use of facility.

Where: Place or location where expense is incurred.

Why: Business purpose of each expenditure and business relationship between taxpayer and person being entertained, facility used, etc.
- For more information, see Recordkeeping Requirements, page 15.
- Q. Must each of the above elements be substantiated?**
- A. Yes. If any one element is not substantiated, the entire expenditure may be disallowed.
- Q. How should substantiation of travel, entertainment, business gifts, use of automobile and certain other business expenditures be maintained?**
- A. Substantiation of these expenses should be recorded in an account book, diary, statement of expense or similar record and be supported by adequate evidence.
- Expenses for meals and entertainment should be accumulated in a separate cost category from travel expenses in order to simplify the computation of the amount subject to the 50-percent limitation.
- Q. What constitutes adequate documentary evidence of expenditures?**
- A. Adequate documentary evidence includes receipts, bills marked paid, or similar evidence. Merely maintaining a record of expenditures is insufficient.
- Q. Is documentary evidence required for every single expenditure?**
- A. No. Evidence is only required for lodging while traveling away from home and for any other expenditures of \$25 or more. Where such evidence is not readily available for transportation charges, maintaining a record of expenditures is sufficient.
- Q. Would a cancelled check be adequate evidence?**
- A. No. A cancelled check will not by itself support a deduction without other evidence (e.g., payee's bill) demonstrating the business purpose.
- Q. In lieu of documenting actual meal expenses while traveling away from home on business may I deduct a prescribed amount?**
- A. Yes. The IRS has ruled that it will allow taxpayers to claim a specified amount in lieu of substantiation of actual cost of meals and incidentals. The deduction for meal and incidental expenses in 2017 varies by location.
- Contact your tax advisor for exact rates or find the rates at www.gsa.gov/portal/content/104877.
- The standard meal allowance may not be taken for the same day that you use the per diem living allowance covered by the special legislator election discussed in the Living Expense section.
- Q. How long should I keep supporting records?**
- A. Generally, keep records for three years from the date your tax return is filed or the due date of the return, if later. However, some records must be kept longer. Consult your CPA for guidance.
- Q. What is the best way to support business use of an automobile?**
- A. A diary or log of the business use of the auto showing time, place, mileage and business purpose will provide adequate support.
- Q. What other information is required to be reported on Form 2106 regarding vehicle usage?**
- A. The total mileage for the year; the average daily round trip commuting mileage and the total of the other personal mileage for the year. Form 2106 also asks if you have written evidence to support your deduction.

Q. *How can the business purpose of an expenditure be substantiated?*

- A. The business purpose can be substantiated by noting the name, title and occupation of those entertained, the type of activity and by describing the business benefit derived or expected.

The business relationship of the individual contacted must also be noted. If the group is large, you are not required to record the names of each individual present if a class designation would indicate the business purpose (for example, met with officers of the Washington Society of CPAs).

Q. *Do any special rules apply to the deduction of dues and expenses related to the business use of a private club or other entertainment facility?*

- A. Yes. Fees paid to any athletic, sporting, or other club or organization are not deductible.

However, dues paid to professional or public service organizations are deductible if paid for business reasons, and the organization's principal purpose is not to conduct entertainment activities for members or their guests.

No deduction is allowed for expenses of maintaining an entertainment facility (e.g., yacht, hunting lodge, tennis court, vacation resort, etc.); out-of-pocket expenses for such items as food and beverages during entertainment at a facility are subject to the 50-percent rule discussed earlier. (For the substantiation requirements for such expenditures, see the first Question and Answer in this section.)

RECORDKEEPING REQUIREMENTS FOR TRAVEL, ENTERTAINMENT AND GIFTS

ELEMENTS TO BE SUBSTANTIATED (1)	EXPENDITURES FOR TRAVEL AWAY FROM HOME (2)	EXPENDITURES FOR ENTERTAINMENT (3)	EXPENDITURES FOR GIFTS (4)
Amount	Amount of each separate expenditure for transportation, lodging and meals. Permissible to total incidental expenses in reasonable categories: taxis, daily meals for traveler, etc.	Amount of each separate expenditure. Incidental items such as taxis, telephones, etc. may be totaled on a daily basis.	Cost of gift
Time	Dates of departure and return for each trip, and number of days attributable to business activities.	Date of entertainment or use of a facility for entertainment. (Duration of business discussion.)	Date of gift
Place	Destination by name of city or other appropriate designation.	Name and address or similar designation of place of entertainment or place of use of a facility in connection with entertainment. Type of entertainment if not otherwise apparent. (Place of business discussion.)	Not applicable
Description	Not applicable	Not applicable	Description of gift
Business Purpose	Business reasons for travel or nature of business benefit derived or expected to be derived.	Business reason or nature of business benefit derived or expected to be derived. Nature of business discussion or activity.	Business reason for making the gift or nature of business benefit derived or expected to be derived.
Business Relationship	Not applicable	Occupation or other information—such as name or other designation—about persons entertained which establishes their business relationship to taxpayer (identification of persons entertained who participated in business discussion.)	Occupation or other information—such as name or other designation—about recipient which establishes business relationship to taxpayer.

