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Ken Berry, JD • Jan. 27, 2017



The IRS is notoriously stingy when it comes to deducting business meal expenses. Usually, if you can't meet the substantiation rules under the strict letter of the tax law, it will disallow the deduction. Of course, you can take your chances in Tax Court, but the IRS often prevails in these conflicts.

Prime example: In a new case, a business owner was only able to salvage part of the deduction he claimed for business meals. For example, the Tax Court denied the any

write-off for expenses that appeared to be purely personal nature, such as cups of

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But the IRS won't simply accept your word for it. For entertainment expenses, you must keep records indicating the following:

- The amount of the expense;
- The time and place of the entertainment or expense;
- The business purpose of the entertainment or expense; and
- The business relationship to the taxpayer of the "person or persons entertained."

Unfortunately for the taxpayer in the new case, he failed to deliver the tax goods.

Key facts: During the tax year in question, the taxpayer was the sole shareholder and manager of a company involved in recruiting foreign workers for seasonal jobs in the U.S. His clients included country clubs, golf courses, national parks, ski resorts and other similar organizations.

The taxpayer deducted \$24,744 in meal expenses on his 2010 return. In support of the deduction, he produced copies of receipts and a schedule summarizing the contents of receipts. The receipts include handwritten statements where he sometimes indicates the business purposes for the expenditures and/or the identities of the individuals being entertained. The IRS conceded that the taxpayer adequately substantiated expenses of \$12,388 – roughly half of the deduction — but argues that petitioner has failed to substantiate the excess amount claimed.

The Tax Court reviewed the taxpayer's receipts and found them to be inadequate.

First, many of the receipts appear to be for personal expenses. For example, he numerous receipts for single cups of coffee he consumed by himself, as well as many

receipts for meals he shared with his wife. These expenses do not generally relate to

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entertainment expenses that the IRS conceded.

Moral of the story: Make sure you're on firm ground if you're deducting business meal and entertainment expenses. Most important, maintain the records needed to adequately substantiate your claims.

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