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## IR News Release 95-56

IRS has increased the threshold for substantiating travel and entertainment expenses from \$25 to \$75, for expenses incurred after Sept. 30, '95.

Code Sec. 274(d) provides that taxpayers cannot deduct expenses for travel, entertainment, gifts or listed property unless the expenses are substantiated by adequate records as provided in IRS regs. The regs currently require substantiation by documentary evidence, such as a receipt, for any expenses of \$25 or more. (Reg. § 1.274-5T(c)(2)(iii)(B)) Thus, expenses under \$25 (other than lodging expenses which aren't subject to the threshold) don't require substantiation by documentary evidence. The \$25 threshold dates back to '62. IRS has announced it will amend the regs to provide for a threshold of \$75, effective for expenses incurred after Sept. 30, '95. IRS said that the change is intended to make recordkeeping less difficult for businesses and employees.

RIA observation: There's no increase in the \$25 Code Sec. 274(b) limit on deductions for business gifts.

RIA observation: Although T&E expenses under \$75 don't require documentary evidence, a taxpayer is still required to establish each of the following for every separate expenditure for travel expenses, entertainment expenses, business gifts or listed property:

- . . . amount of the expense, or item;
- . . . time and place of travel, entertainment, amusement, etc.;
- . . . date and description of business gifts;
- . . . business purpose of the expense or item;
- . . . business relationship to taxpayer of each person entertained or receiving a gift.

RIA observation: Each separate payment is a separate expenditure. (Reg. § 1.274-5T(c)(6)(i)(A)) Thus, for example, a payment for a business meal and a payment for entertainment after the meal are separate expenditures. Accordingly, if each payment is under \$75, the requirement that documentary evidence be provided for the expenditures won't apply.

IRS has also asked for public comments regarding the rules that (a) require an employee who is reimbursed for expenses by his or her employer to furnish the employer with adequate records as described in IRS regs, and (b) require the employer to maintain the records and produce them if requested by IRS. IRS is currently reviewing these requirements to determine whether changes should be made to provide alternative ways to satisfy the requirements.

References: For the \$25 threshold, see FTC 2d/FIN ¶ L-4603 ; USTR ¶2744.13; CDTAX ¶29,532; TG ¶ 17904 .