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Notice 95-50

This notice provides information on a change that the Service will make to the substantiation rules in the regulations under § 274 (d) of the Internal Revenue Code, and also invites public comment on possible additional changes to certain other substantiation rules under that section.

Receipt threshold to increase from \$25 to \$75. Section 274 (d) disallows an otherwise allowable deduction under §§ 162 or 212 for any expense for traveling, entertainment, gifts, or listed property, unless the expense is substantiated by adequate records. Section 1.274-5T (c) (2) (iii) of the temporary Income Tax Regulations requires a taxpayer to maintain documentary evidence (such as receipts) for (A) any lodging expenditure, and (B) any other expenditure of \$25 or more. The \$25 receipt threshold was established in 1962. The Service will amend § 1.274-5T (c) (2) (iii) (B) to increase the \$25 receipt threshold to \$75, effective for expenditures incurred on or after October 1, 1995.

Public comment invited. An employee who is reimbursed by his or her employer may substantiate expenses under the "adequate accounting" rules of § 1.274-5T (f). Under these rules, (1) the employee must furnish the employer with adequate records as provided in § 1.274-5T (c) (2), including documentary evidence (such as receipts), that establish each element (e.g., amount, time, place, and business purpose) of the expenditure, and (2) the employer must maintain the documentary evidence and produce it if requested by the Service.

The Service is also reviewing § 1.274-5T (0) to determine whether changes should be made to the adequate accounting rules to provide alternative means of satisfying the substantiation requirements of § 274 (d). The Service invites public comment on this matter. Written comments should be submitted by December 15, 1995, to: Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Attn: CC:CORP:T:R (IA-Branch 2), Room 5228, Washington, D.C. 20044. All materials submitted will be available for public inspection and copying.