IRS Regulations on Adequate Records for Travel and Entertainment

IRS regulations require you to include a written statement of the business purpose of an expense unless it is evident form the surrounding facts and circumstances. Documentary evidence, such as receipts, paid bills, or similar evidences sufficient to support an expenditure is required for: Any expenditure for lodging while away from home, and Any other expenditure of $25 or more, except for transportation charges when documentary evidences is not available. Documentary evidence is considered adequate to support an expenditure if it establishes the amount, date, place, and the essential character of the expenditure. For example, a hotel receipt is sufficient to support business travel expenditures if it contains the following: name and location of the hotel, date, and separate amounts for such charges as lodging, meals, and telephone. A restaurant receipt is sufficient to support a business meal expenditure if it contains the following: name and location of the restaurant, the date and amount of the expenditure, and indications of charges made for items other than meals and beverages. IRS regulations further state that "It is not necessary to record information in an account book, diary, log, statement of expense, trip sheet, or similar record which duplicates information reflected on a receipt so long as the account book, etc., and receipt complement each other in an orderly manner." Important: In some cases, a document may not be sufficient to support more than one (or part of one) element of an expenditure. Thus, a canceled check, together with a bill or receipt from he payee would ordinarily establish the element of cost. In contrast, a canceled check alone would not be sufficient without other evidence showing that the check was used for a certain business purpose. The IRS may still allow a deduction, even though all elements of a particular expenditure have not been substantiated, as long as you have substantially Page 2 of 2 Confidential Page 2 8/14/2020 Version Update complied with the "adequate records" requirement. The regulations do not define substantial compliance but the Internal Revenue Manual states that it depends upon the circumstances and whether or not you have made a good faith effort to comply with the requirements. Tax auditors are told to consider the following factors when determining if there has been substantial compliance: The number and type of expenditures involved. The number of missing elements. What documentation is missing. Reasons why the element was not properly substantiated. Availability of other information to substantiate the expenditure. If you fail to show the IRS that you have substantially complied with the "adequate records" requirement with respect to an element of an expenditure, then you must establish such element: By your own written or oral statement, containing detailed, specific information about the element; and, By other corroborative evidence sufficient to establish such element. If the unsubstantiated element is the description of a gift, or the cost, time, place, or date of an expenditure, the corroborative evidence must be "direct evidence," such as a written or oral statement from persons entertained or other witnesses who can set forth detailed information about the element. If this is not available, the corroborative evidence must be documentary evidence. If you have failed to substantiate either your business

relationship to the persons you've entertained, or the purpose of a business expenditure, the corroborative evidence can be circumstantial evidence. In the event you have lost your records through circumstances beyond your control, such as destruction by fire, flood, earthquake, or other casualty, you have the right to substantiate your deduction by a reasonable reconstruction of your records.