



**NEWBURG & COMPANY<sup>LLP</sup>**  
CERTIFIED PUBLIC ACCOUNTANTS  
TRUSTED FINANCIAL ADVISORS

**2/25/11**

**Tax Audits and Substantiation Rules - Travel, Meals, and Entertainment**

Ever wonder how someone is selected by the IRS for an audit? A computer program called the Discriminant Inventory Function System (DIF) assigns a numeric score to each individual return after it is processed. The higher the DIF score, the higher the potential that an exam will result in a change to income tax liability. While the DIF program identifies most of the returns examined, other filings may also generate exams. For example, claims for refund, information matching programs, or inspection of related-party returns during another exam may trigger an audit.

The IRS has established a more strict set of rules for deducting travel expenses, entertainment, listed property and miles, including mileage reimbursement from your employer. These deductions take extra effort on the part of the taxpayer, but are well worth the peace of mind knowing you have returned adequate records should you be audited.

The IRS has put additional emphasis on substantiation of travel and entertainment deductions. Lack of adequate records and records reconstructed from invoices and other sources after the fact have been disallowed in their entirety. The IRS requires substantiation of travel, entertainment, mileage, and listed property deductions. Many of these deductions only require the taxpayer to maintain a written log to substantiate the deduction. To claim these expenses, IRS requires the maintenance of a daily log outlining miles traveled, destination and business purpose. We recommend the use of a formal mileage log book or use of an online calendar where the taxpayer enters the travel details and business purpose. You can print your online calendar off monthly and tuck this away in a file in case you are ever audited.

In order to claim a deduction for business use of a car or truck, a taxpayer must have ordinary and necessary costs related to one or more of the following:

- Traveling from one work location to another within the taxpayer's tax home area.
- Visiting customers or other travel connected with necessary job functions.
- Attending a business meeting away from the regular workplace.

It should also be noted that commuting expenses are not deductible.

Meals and entertainment deductions should contain similar backup, such as the date, nature, and duration of business discussion. See IRS Publication 463 for more information.

If you have further questions on maintaining adequate information for the above-mentioned expenses please do not hesitate to contact Nakia McCauley, EA, MST at Newburg & Company LLP.