

Meals and Incidental Expenses



This brochure contains general tax information for taxpayers. As each tax situation may be different, do not rely upon this information as your sole source of authority. Please seek professional advice for all tax situations.

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If you travel away from home for business and stay overnight, the IRS allows you to deduct certain expenses connected with that travel. This is true whether you are an employee or self-employed.

The deduction that causes most problems and questions from the IRS is the meal and incidental expense deduction.

Substantiation Rules

- Substantiation (proof) of meals requires the identification of the location, date, time, cost, and business purpose.
- If another person is involved, you must identify that person.
- A log book is the easiest way to track this information.
- You must keep receipts to substantiate your deductions.

Actual Expense Method

- If you claim the actual expense amount for meals, you must provide all of the substantiation requirements listed above.
- The IRS may reduce any deduction it deems lavish or extravagant.

Standard Meal Allowance

- The IRS bases the standard meal allowance on the federal per diem rates for the specific area of travel.
- The basic meal and incidental rate is \$46 for 2013 and 2014 per day unless a higher rate applies for your specific location.
- The IRS publishes rates for various areas of the U.S. in Publication 1542, *Per Diem Rates*.

- If you are traveling outside of the Continental U.S., rates vary widely. You will need to provide your tax preparer with actual dates and locations so he or she can calculate your meal allowance deduction.
- If you travel to more than one area in a day, the area where you stop for sleep and rest determines the allowed amount.

Incidental Expenses

Incidental expenses include:

- Laundry and dry cleaning expenses.
- Fees and tips for waiters, baggage handlers, and similar service providers.

Deduct taxi fares and telephone costs separately.

Partial Days

If you are away from home overnight, but not for an entire 24-hour period, you must prorate the standard meal allowance for each partial day.

The most common method for calculation is to break the day into six-hour quarters (midnight to 6 a.m., 6 a.m. to noon, noon to 6 p.m., and 6 p.m. to midnight) and allow a portion of the per diem for each quarter that you are away from home.

Limitations

- Allowable deductions include meals away from home overnight or when entertaining a business client.
- Whether you determine the amount by using actual expenses or by using the standard meal allowance, the IRS limits the actual deduction to 50% of the expense.

Transportation Workers

Individuals who are subject to Department of Transportation (DOT) hours of service limitations can deduct a higher percentage of their meal expenses when they are away from home overnight. The limit for transportation workers is 80%.

Individuals subject to the hours of service limitations include certain employees in the following industries:

- Airline
- Interstate trucking
- Bus driving
- Railroad
- Merchant Marine

Lodging

An individual may **not** use the federal per diem amount for lodging and **must** claim the deduction for **actual** expenses. The only exception would be in the case of an employer choosing to reimburse the employee on the per diem (including the high-low rate) basis.

- If you are related to your employer (spouse, sibling, lineal ancestor or descendent, more than 10% owner of a corporation, or certain fiduciaries), your employer must use the actual expense method.