

# Record-Keeping Resolutions

written by JARGAL OYUNBILEG

Your calendar may be your single most important record-keeping tool.

**R**ecently, I was waiting for my appointment to arrive at La Boulange and I could not help but notice the professionals sitting around me having business lunches. Guess what my tax brain started thinking about? “I hope they don’t forget to document their business lunches in their calendars. I hope they document the miles they drove to get to their business meetings in their calendars. If they don’t, I pray that they will read this column way before they get selected for an IRS audit.”

Don’t worry. Your tax professional friends do not have these kinds of thoughts every time they see people having a business lunch. This thought popped up in my mind because our office just concluded another IRS audit representation engagement for a new client. We held this client’s hand through the process of completing the documentation for the three most audited expenses for self-employed taxpayers: business meals, business use of a personal car and business use of a home. Out of these three deductions, the first two require extensive documentation.

Reconstructing records to document the above three deductions are costly, frustrating and/or time consuming. (I added the “and/or,” just in case there is someone out there who enjoys such a learning process.) Nevertheless, I thought I would share with you what our office thinks is the best practice of

documenting business meals, business miles and business hours at a home office. To start, all you need is a calendar—paper or digital.

## Document Your Business Meals and Entertainment

There really is no argument about the need for real estate brokers and agents to meet with prospects, colleagues and networking professionals for coffee, lunch or dinner. I believe they are one of the hardest-working and most-often-networking professionals; they even take calls at all hours. After all, having a great network of professionals is an essential part of their business. More networking meetings mean more opportunities for referrals. What does this mean from a tax perspective?

More networking meetings translate into an increase in meals and entertainment deductions. Often times, clients think that having payment receipts or credit card statements is sufficient to prove that these are business meals. Proof of payments is important evidence, but it is not conclusive evidence. The payment receipts support the date, the premise and the cost of business meals; however, the receipts do not explain the “business” nature of the deduction.

What would complete the documentation is a calendar with a record of who you had lunch with and what was discussed. Of course, you are not required

to transcribe the entire conversation. For an example, my recent lunch at La Boulange would go on my calendar as: “January 3: 1 p.m. to 2 p.m., lunch with Wendy at La Boulange to discuss the upcoming property sale - \$20.” After the lunch, you can write down the cost of the lunch and maybe even staple the receipt to the calendar. If you paid cash for lunch and you do not have a receipt, please make sure the cost is written in the calendar. This can serve as your receipt as long as the lunch costs less than \$75. However, you should still request receipts, if possible.

## Track Your Business Miles

Another item that I would add next to my appointment is the number of business miles I drove from my office to La Boulange and the parking cost. I would simply write “12 miles and \$8 for parking” in my calendar.

Producing a mileage log has been proven to be a frustrating challenge for the taxpayers who are going through IRS audits. Therefore, it is better to be proactive and keep great records than to be reactive. You might be upset at the tax preparer who just accepted your 75% business use or 12,000 total miles and 9,000 business miles without asking questions if you end up being audited down the line.

If your tax preparer goes beyond just taking your 12,000 total miles and 9,000 business miles, your conversation may go like this:

**Advisor:** Do you have records to support these miles?

**Taxpayer:** Of course I do; do you think I'm a liar?

**Advisor:** You know, unless you rounded up these miles to the nearest thousandth, these miles appear to be estimates. The IRS says you cannot deduct amounts that you approximate or estimate (IRS Publication 463). And you should have adequate records to substantiate your miles.

**Taxpayer:** Who has time to be tracking every single mile?

**Advisor:** You will be waving a red flag and telling the IRS that you want to be selected for an audit. You will potentially need to go through a painful and expensive audit process.

**Taxpayer:** (Pause) Tell me what I should be doing.

When a car is driven for business and personal use, a mileage log is required as a supporting document for the business miles. What we recommend to our clients is not to have a separate mileage log, but to write the business miles in their calendars.

Many professionals use their calendars to schedule their appointments. Realtors have records of listings and the open houses they visited or held for the week. If you are a realtor, please do not dispose of the listings. This is all good information to remind you of where you drove.

The best practice for documenting the auto expense deduction starts at the beginning of the year when you should write down your odometer reading, you guessed it, in your calendar. The difference between the January 1, 2014, and January 1, 2015, odometer readings is the total miles driven for 2014. If you did not write down the odometer reading at the beginning of the year, try finding a maintenance receipt with a date close to the beginning of the year. Maintenance or service receipts usually have an odometer reading at the time the car was brought in.

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Regardless of which method is used to compute the car expense, you will need to document how many business miles you drove for the year for your mixed business and personal use vehicle. Some may say that writing down business miles seems like a lot of work, but it's really easy if you stay on top of it.

Arrive at your appointment a couple of minutes early. While waiting, map the distance between your office and your lunch (use your smart phone), multiply the distance by two and jot down the round trip mileage in your calendar next to your lunch appointment. You will find that documenting business miles does not even take two minutes.

### Document Your Home Office Use

Tax rules require that in order to deduct home office expenses, you have to be able to support that you need to use a part of your home as an office. This is especially important for sole proprietors with a rented business office. You will also have to prove that the part of your home that is used as an office is exclusively and regularly used as an office.

Determining the deductible portion of the home office expense can be simple. We advise our clients to sketch a floor plan that highlights the home office area. This can be hand drawn, but it should contain the square footage of the home and home office. The ratio of the home office to the home is used to compute the office portion of the home expense.

"Exclusive use" means that even though the office is in the home, it must be used solely as an office. You should avoid having items that are not justifiable as business office items, such as strollers and laundry baskets full of clothes to fold.

How do you document the regular use of your home office? That is where your calendar can come in handy. If you check your business email and prepare for meetings in the mornings from 8 a.m. to 10 a.m., you can block that time in your calendar and describe the administrative tasks. If you

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Rules and regulations change, sunset and extend, but documentation and record-keeping remains the essential requirement. We have seen audit frequency rise in the past five years. Good records will help you get a “no change” audit report; bad records will get you an audit adjustment, and no records will disallow 100% of your deductions. So let’s start 2014 by resolving to keep good records.

I hope I have repeated the word “calendar” enough times in this column to make you realize just what an important tool it can be. I also hope you will have a very tattered, worn-out and filled-in calendar when this year concludes.

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