Fulbright & Fulbright, CPA, PA

Tax-Saving Tips

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Proving Travel Expenses after Tax Reform

As you likely know by now, your travel meals continue under tax reform as tax-deductible meals subject to the 50 percent cut. And tax reform did not change the rules that apply to your other travel expense deductions.

One beauty of being in business for yourself is the ability to pick your travel destinations and also deduct your travel expenses. For example, you can travel to exotic locations using the seven-day travel rule and/or attend conventions and seminars in boondoggle areas. From these examples, you can understand why the IRS might want to see proof of your business purpose for any trips, should it examine them.

With deductions for lodging, a meal, or other travel expenses, the rules governing receipts, business reasons, and canceled checks are the same for corporations, proprietorships, individuals, and employees. The entity claiming the tax deduction must keep timely records that prove the four elements listed below:

1. **Amount.** The amount of each expenditure for traveling away from home, such as the costs of transportation, lodging, and meals.
2. **Time.** Your dates of departure and return, and the number of days on business.
3. **Place.** Your travel destination described by city or town.
4. **Business purpose.** Your business reason for the travel, or the nature of the business benefit derived or expected to be derived.

When in tax-deductible travel status, you need a receipt, a paid bill, or similar documentary evidence to prove

- every expenditure for lodging, and
- every other travel expenditure of $75 or more, except transportation, for which no receipt is required if one is not readily available.

The receipt you need is a document that establishes the amount, date, place, and essential character of the expenditure.

Hotel example. A hotel receipt is sufficient to support expenditures for business travel if the receipt contains

- the name of the hotel,
- the location of the hotel,
- the date, and
- separate amounts for charges such as lodging, meals, and telephone.

Restaurant example. A restaurant receipt is sufficient to support an expenditure for a business meal if it contains the

- name and location of the restaurant,
- date and amount of the expenditure, and
- number of people served, plus an indication of any charges for an item other than meals and beverages, if such charges were made.

You can't simply use your credit card statement as a receipt. Like a canceled check, it proves only that *you paid the money, not what you purchased*. To prove the travel expenditure, you need both the receipt (proof of purchase) and the canceled check or credit card statement (proof of payment).

In a nutshell, a travel expense is an expense of getting to and from the business destination and an expense of sustaining life while at the business destination. Here are some examples from the IRS:

- Costs of traveling by airplane, train, bus, or car between your home and your overnight business destination
- Costs of traveling by ship (subject to the luxury water travel rules and cruise ship rules)
- Costs of renting a car or taking a taxi, commuter bus, or airport limo from the airport to the hotel and to work destinations, including restaurants for meals
- Costs for baggage and shipping of business items needed at your travel destination
- Costs for lodging and meals (meal costs include tips to waiters and waitresses)
- Costs for dry cleaning and laundry
- Costs for telephone, computer, Internet, fax, and other communication devices needed for business
- Tips to bellmen, maids, skycaps, and others

The travel deduction rules are the same whether you operate your business as a corporation or a proprietorship, with one important exception. When you operate as a corporation during the tax years 2018 through 2025, you must either

- have the corporation reimburse you for the expenses, or
- have the corporation pay the expenses.

Tax Reform Increases the Tax Benefits of Employing Your Child

The recent tax reform eliminated personal exemptions for taxable years after December 31, 2017, and before January 1, 2026. This makes your child worthless to you on your Form 1040. But there is a way to get even or, perhaps, much more than even.

Let's set the stage first. For taxable years after December 31, 2017, and before January 1, 2026, the standard deduction for a single taxpayer begins at $12,000 in 2018 and increases every year for inflation. The new standard deduction means that a single taxpayer such as your child can earn up to $12,000 in W-2 wages and pay not a penny in federal taxes.

As the owner of a business, you have the advantage of being able to hire your child to work in your business, and that creates tax-saving opportunities for both you and your child. The big dollar benefits of hiring your child go to the Form 1040, Schedule C taxpayer and the husband-and-wife partnership because such businesses are exempt from FICA when they employ their children who are under age 18.

S and C corporations and non-spouse partnerships do not qualify for this benefit. They have to pay the payroll taxes on all employees—period. There is no parental benefit.

Tax Reform Makes Professional Gamblers Who Lose Money Suffer More

As a professional gambler, you know that tax law did you no favors before tax reform. But now, because of tax reform, tax law has you between a rock and a hard place for tax years 2018 through 2025, because during this eight-year period of darkness, you get no deduction for any part of your losses.

Example. Gordy, a professional gambler, wins $400,000 at the poker tables but loses $500,000 at the blackjack tables. During the year, Gordy incurs $120,000 of business expenses. Gordy's business loss for the year is

$220,000 ($400,000 - $500,000 - $120,000). His 2018 tax deduction for the business loss is zero, thanks to tax reform.

We have some good news: if you make a profit from your sole proprietorship professional gambling activities, you qualify for the 20 percent tax deduction under Section 199A.

Example. Gordy has net Schedule C income of $110,000 in 2018. His qualified business income for purposes of the Section 199A deduction is $110,000, and 20 percent of that is $22,000. His Section 199A tax deduction is the lesser of $22,000 or 20 percent of his taxable income.

So, thanks to tax reform, here's the deal: you, as a professional gambler, have but one tax-smart strategy—make money.

Good News: Tax Reform Lands a Blow to AMT

Tax reform made changes to the tax law that significantly impact the alternative minimum tax (AMT). The changes could mean more money in your pocket and less going to the government.

If you own a C corporation, then you are the big AMT winner: Tax reform completely eliminated AMT for C corporations. C corporations are now subject only to a flat 21 percent income tax rate.

If you are an individual taxpayer, you also have good news. Tax reform increased the AMT exemption amounts (and they will continue to increase for inflation) as follows:

- The joint return and qualifying widower exemption went from $84,500 to $109,400.
- The single and head of household exemption went from $54,300 to $70,300.
- The married filing separately exemption went from $42,250 to $54,700.

Your AMT exemptions phase out if your alternative minimum taxable income is over a certain threshold. Good news—tax reform substantially increased these thresholds:

- The phase-out on a joint return or a qualifying widower return used to start at $160,900 and now starts at $1,000,000.
- The phase-out for single and head of household returns used to start at $120,700 and now starts at $500,000.
- The phase-out on a married filing separately return used to start at $80,450 and now starts at $500,000.

These changes mean that it is less likely you will pay AMT in tax year 2018 and going forward.

Tax reform also took aim at the most common deductions that triggered AMT, by

- limiting the state and local tax deduction on Schedule A to $10,000 starting in 2018,
- suspending 2 percent miscellaneous itemized deductions starting in 2018, and
- suspending personal exemption deductions starting in 2018.

You probably are not happy with the limitation on the state and local tax deductions if you live in a high-tax state. You likely stand to lose tens of thousands of dollars in tax deductions.

But if you were paying a lot in state and local taxes, you probably didn't get the full benefit of this deduction, because AMT clawed back its tax benefits. The end result could mean that when this washes out, you might pay less tax under tax reform without your state and local tax deductions.

S Corporation Fringe Benefits after the Recent Tax Reform

Fringe benefits are usually a good thing—but there's a catch when you own more than 2 percent of an S

corporation. The good news? Federal tax law allows the cost of these fringes as deductible expenses for your S corporation.

The bad news? You, the shareholder-employee who owns more than 2 percent, may suffer additional taxes on some of the benefits because the tax code requires your corporation to put selected benefits on your W-2. The outcome is sometimes favorable and sometimes not.

Here's the ugly rule that causes this problem. Under the federal income and employment tax rules for the most popular fringe benefits, tax law treats the more than 2 percent shareholder-employee of an S corporation as a partner and denies the benefits. And—we know you are just waiting for this—there is more bad news: related-party stock attribution rules apply to the S corporation.

Under the related-party rules, tax law says that your spouse, parents, children, and grandchildren own the same stock you own—and if you employ them in your S corporation, their fringe benefits generally suffer the same ugly fate as your fringe benefits.

Four Beneficial but Somewhat Crazy Fringe Benefits

The following four fringe benefits work their way through a tax code maze to eventually produce a personal benefit to you, the shareholder-employee who owns more than 2 percent:

1. Health insurance
2. Health reimbursement arrangements (HRAs)
3. Health savings accounts (HSAs)
4. Disability insurance

As an example of the tax code maze, here is what you, the more than 2 percent shareholder-employee, must do to get any tax benefit whatsoever from health insurance:

- Make the S corporation pay for your insurance premiums, either directly or through reimbursement to you.
- Have the S corporation include the health insurance as wages not subject to FICA on your W-2.
- Deduct (as an individual taxpayer) the cost of the premiums, using the self-employed health insurance deduction on page 1 of your Form 1040.

Six Stinky Fringe Benefits

What makes a fringe benefit stinky?

- The stinky fringe benefit gives your S corporation a tax deduction for the compensation that it includes on your W-2. Effectively, this gives you a zero-tax benefit from the stinky fringe benefit.
- The stinky fringe benefit increases the corporation's FICA taxes on the compensation it has to add to your W-2.
- The stinky fringe benefit increases your personal FICA taxes because of the compensation added to your W-2.

In summary, stinky fringe benefits—I've listed them below—are absolutely NO benefit to you, and they increase both your and your corporation's FICA taxes. That's really stinky.

1. Group term life insurance
2. Qualified moving expense reimbursements
3. Qualified transportation fringe benefits
4. Meals and lodging for the convenience of the employer
5. Qualified employee achievement awards
6. Qualified adoption assistance

Three Maybe (but Maybe Not) Fringe Benefits

The three fringe benefits listed below face special tax code disallowance rules that often take these benefits away from the S corporation shareholder-employee who owns more than 2 percent.

1. Qualified educational assistance program benefits
2. Qualified dependent care assistance program benefits
3. Working condition fringe benefits (These currently suffer a tax reform impediment that could make them non-deductible—that's why they sit in the "maybe, but maybe not" category.)

Four No-Problem Fringe Benefits

Your S corporation can provide you, as a shareholder-employee who owns more than 2 percent, and its other employees with the following fringe benefits, which are tax-free and deductible by the S corporation:

1. **De minimis fringe benefits.** De minimis fringe benefits include occasional use of the company copy machine, holiday and birthday gifts with a low value, occasional parties and picnics for employees and their guests, and occasional tickets to the theater or sporting events.
2. **No-additional-cost services.** No-additional-cost services are excess-capacity services, such as airline, bus, or train tickets; hotel rooms; or telephone services provided free, at a reduced price, or through a cash rebate to employees working in those lines of business.
3. **Qualified employee discounts.** This exclusion applies to a price reduction you give your employee on property or services you offer to customers in the ordinary course of the line of business in which the employee performs substantial services. The employee discounts can be up to 20 percent on services and the gross profit percentage on merchandise.
4. **On-premises athletic facilities.** Your S corporation can exclude the value of an employee's use of an on-premises gym or other athletic facility from the employee's wages if substantially all use of the facility during the calendar year is by the corporation's employees, their spouses, and their dependent children.

As you know, you need to pay attention when it comes to the fringe benefits that your S corporation is going to offer you, a shareholder-employee who owns more than 2 percent. And of course, you have to pay attention when your S corporation offers fringe benefits to rank-and-file employees, too.