# THE SMALLBIZ BUILDER

Planning For Your Dreams

PADGETT BUSINESS SERVICES

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## This Month:

- Keeping Access to Your Records
- Statute of Limitations
- Tax Deductible Vacations?

## Keeping Access to Your Records

There are many situations where a business owner or other taxpayer can find themselves without complete records. You sell your business and are later audited by the IRS. Your business has gone sour for the buyer so he takes revenge by refusing to release your records. Or the business goes bankrupt and he simply abandons the records. Or you give your records to your accountant who passes away and his wife transfers the business to a third party. Or you have a falling out with your partners or spouse. A hurricane or other disaster destroyed your records.

While you may get some sympathy from the tax authorities, you're still responsible for your records. In some cases, the solution is pretty simple:

- Don't let your accountant or attorney retain original documents unless it's just for a short period, for example to prepare your tax return.
- Get records back from your spouse before separating.
- If you're selling your business, keep whatever the new owner won't need (depends on a number of factors, talk to your accountant and attorney).

## Statute of Limitations

After you file your taxes, you'll have many records that may help document items on your tax return. You'll need these documents should the IRS select your return for examination. Generally, this means you must keep records that support items shown on your return until the statute of limitations for that return runs out.

The statute of limitations is the period of time in which you can amend your return to claim a credit or refund or the IRS can assess additional tax. Returns filed before the due date are treated as being filed on the due date.


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## Tax Deductible Vacations?

Although technology has revolutionized the way we do business, there are still situations where it's necessary for a face-to-face meeting with staff, management, or customers. With a little planning for the current vacation season, you can mix some leisure time in with your business travel and still get a tax deduction.

**Deductible Travel Expenses —** If your trip within the U.S. was primarily for business and, while at your business destination, you extended your stay for a vacation, made a side trip, or had other personal activities, you can deduct only your business-related travel expenses.

It's important to keep records such as receipts, canceled checks, or bills, to support your expenses and be able to prove the number of days spent on business. The following is a list of expenses you may be able deduct depending on the facts and circumstances:

- 50% of the cost of meals
- Travel by air, rail, and bus fares
- Baggage charges
- Hotel expenses
- Expenses of operating and maintaining a car
- Local transportation costs for taxi fares or other transportation to and from the airport
- Cleaning and laundry expenses
- Computer rental fees
- Telephone or fax expenses
- Tips on eligible expenses

However, these same type of expenses aren't deductible for non-business days. Personal entertainment costs on the trip, such as a sightseeing tour, aren't deductible, regardless of the day on which they fall. Cost deductions for a spouse accompanying you on a business trip are allowed only if your spouse is a bona fide employee. Merely having your spouse-employee perform some incidental business service, such as typing up notes from a meeting, isn't enough to establish a business purpose. Your spouse's presence must be necessary to your business pursuits – not just helpful.

**Travel Outside the U.S. —** Travel outside the U.S. has its own set of unique rules and recordkeeping requirements. When documenting your business trips outside the U.S., your trip will fall into one of three categories:

- Travel Entirely for Business,
- Travel Primarily for Business, and
- Travel Primarily for Vacation.

The factors which determine the category your trip falls into are related to the number of business days versus total days away. If your trip is less than one week, don't count the day you leave the U.S. but count the day you return to the U.S. On the other hand, if your trip is more than one week, count both the day you leave the U.S. and the day you return. If your trip wasn't entirely for business, you must allocate travel expenses on a day-to-day basis between days you did and didn't conduct business.