

Notice 95-50

September 29, 1995
Code Secs. 274(d); 274

IRS intends to amend regs under Code Sec. 274(d), and increase threshold amount for which receipt is needed to prove deduction from \$25 to \$75, effective 10/1/95. Public comment is invited on other potential changes to related substantiation rules.

IRS EASES RECEIPT REQUIREMENT

E Washington -- The Internal Revenue Service announced today a significant change for employers and employees by raising the requirement for many business receipts from \$25 to \$75 starting Oct. 1, 1995.

The law requires taxpayers to have adequate records for proof of expenses such as traveling, entertainment or gifts in order to claim a deduction. Current regulations allow a deduction if taxpayers have a receipt for lodging when on business travel, and have receipts for other expenses of \$25 or more. The \$25 threshold dates back to 1962.

IRS Commissioner Margaret Milner Richardson said, "***This change is part of our ongoing efforts to make government work better and cost less. IT WILL MAKE RECORDKEEPING A LOT LESS DIFFICULT FOR BUSINESSES AND EMPLOYEES. We are working hard to update our regulations whenever possible or simply eliminate them if we can.***"

Other adequate accounting rules require employers who reimburse employees for business expenses to obtain and keep records such as receipts provided by employees and to produce them if IRS requests. IRS is reviewing these rules to determine whether changes should be made to provide alternative ways to satisfy these recordkeeping requirements. IRS invites the public to comment on this matter. The address to send comments and further information can be found in Notice 95-50. This notice will appear in Internal Revenue Bulletin 1995-42 dated Oct. 16, 1995 and is attached.

Part III. Administrative, Procedural, and Miscellaneous

Notice 95-50 - Substantiation Requirements for Travel & Entertainment Expenses

This notice provides information on a change that the Service will make to the substantiation rules in the regulations under section 274(d) of the Internal Revenue Code, and also invites public comment on possible additional changes to certain other substantiation rules under that section.

Receipt threshold to increase from \$25 to \$75. Section 274(d) disallows an otherwise allowable deduction under sections 162 or 212 **for any expense for traveling** entertainment, gifts, or listed property, unless the expense is substantiated by adequate records. Section 1.274-5T(c)(2)(iii) of the temporary Income Tax Regulations requires a taxpayer to maintain documentary evidence (such as receipts) for (A) any lodging expenditure, and (B) any other expenditure of \$25 or more. The \$25 receipt threshold was established in 1962. ***The Service will amend section 1.274- 5T(c)(2)(iii)(B) to increase the \$25 receipt threshold to \$75, effective for expenditures incurred on or after October 1, 1995.***

Research Institute of America [RIA] goes on about I.R.S. Notice 95-50 . . .

¶L-4603. What is a “separate expenditure” ?

*Each separate payment or use is considered a separate expenditure. Thus, entertaining a guest at dinner and then at a night ball game are separate expenses. Concurrent or repetitious expenditures or uses may be treated as a single item, as for example, the expense of paying for several rounds of drinks while at a cocktail lounge. Tips may be considered separate expenditures if the taxpayer prefers to treat them that way.*⁵

⁵ [Reg § 1.274-5T\(c\)\(6\)\(i\)\(A\)](#).

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Complete legal text for [Reg § 1.274-5T\(c\)\(6\)\(i\)\(A\)](#)

1. Federal Income Tax Regulation

274-5T Substantiation Requirements

(c) Rules of Substantiation

(6) Special Rules

(i) Separate expenditure or use

(A) "In general. For the purposes of this section, each separate payment or use by the taxpayer shall ordinarily be considered to constitute a separate expenditure. However, concurrent or repetitious expenses or uses may be substantiated as a single item. To illustrate the above rules, where a taxpayer entertains a business guest at dinner and thereafter at the theater, the payment for dinner shall be considered to constitute one expenditure and the payment for the tickets for the theater shall be considered to constitute a separate expenditure. Similarly, if during a day of business travel a taxpayer makes separate payments for breakfast, lunch, and dinner, he shall be considered to have made three separate expenditures. However, if during entertainment at a cocktail lounge the taxpayer pays separately for each serving of refreshments, the total amount expended for the refreshments will be treated as a single expenditure. A tip may be treated as a separate expenditure."