

January 2020

DOCUMENTATION OF BUSINESS EXPENSES

Over the past few years, we have represented multiple business clients in audits; one an IRS audit and the others Virginia Use Tax audits. Through the course of the audits, we discovered that many clients had not retained receipts for business expenses paid for with their credit cards. They believed that the expense appearing on the monthly credit card statement was sufficient documentation. It is NOT!

If you are audited, you are required to show that a tax deduction is 1) an ordinary and necessary business expense, which means having a receipt showing what was purchased AND 2) proof of payment, which is a cancelled check or other charge against the business cash account. A paid monthly credit card statement does not meet this compliance and is not by itself sufficient documentation for a business expense deduction. You must have the receipt showing details of the purchase.

We are attaching two client letters that we have circulated for years addressing the use of credit cards and the Use Tax requirements, also available on our website. Please review the letters and feel free to give us a call to personally discuss the implications to your business.

Best Regards to all,

Rebecca

Rebecca R. Schmidt, CPA, EA

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Credit cards, love to use them, hate to code them. We are on what seems like a never ending quest to organize and simplify the use and recording of credit cards when used for business expenses.

PROBLEMS:

1. Credit card statements are not coded by business expense category, you need to do this for us.
2. Monthly coded credit card statements are not being sent to us with the other accounting data.
3. Personal charges on the business credit card.

SOLUTIONS:

1. Match-up receipts to the credit card statement monthly and indicate the category for the proper business expense category.
2. Send us the coded credit card statement with the other accounting data.
3. Do not put personal charges on the business credit card.
4. If you use a personal credit card for business charges, you may want to consider actually paying the business charges with a business check and the personal charges with a personal check.

Also, many credit card companies cut off the billing cycle during the month. It is just good business practice to have your billing cycle end on the last day of the month. That ensures that the charges for the month will be reflected in the correct accounting period. If your credit card has a mid-month cutoff you should call the credit card company and request a change to month end unless the change would interfere with your monthly cash flow.

Many thanks for continuing to work with us on an effective process regarding credit cards in order to keep our time and fees as low as possible.

Sincerely,

The d.a.g.i. Team

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USE TAX - DO IT!

Many of our clients have indicated to us that they are not aware of the USE TAX regulations. Ignorance of the USE TAX reporting requirements can be extremely costly if you are audited and have not been filing.

WHAT IS USE TAX?

USE TAX applies to taxable purchases you make when no sales tax was paid by you at the time of payment. Each state has mandated their own description of taxable purchases and has different filing requirements.

WHY FILE AND PAY USE TAX?

As we all know states are aggressively enforcing laws on the books in an attempt to generate much needed additional revenue. I'll use Virginia as an example of why I believe it is in your company's best interest to come into compliance with USE TAX regulations if you are not already doing so. Virginia is actively auditing medical and dental offices, as well as other businesses. If the business has been filing USE TAX reports the audit period is three years. If the business has never filed then they will audit SIX YEARS! Also, an auditor I was working with recently told me that if they see a business is currently filing USE TAX they will not be audited because there are lots of other businesses where they can audit the full six years and collect more taxes, penalties and interest. WOW, that's enough to make me want to file. While I do not know the inner workings of the other states it seems reasonable to assume that should you be chosen for audit you will be held in better stead if you have been filing.

HOW MUCH IS USE TAX?

Since it is akin to sales tax it is generally the same as your state sales tax.

WHEN MUST USE TAX BE FILED AND PAID?

Each state has its own filing requirements.

Our advice is to:

1. Consult your state's website to determine the requirements for filing and paying USE TAX.
2. Begin filing USE TAX returns when required.

Sincerely,

The d.a.g.i. Team