

January 201:

DOCUMENTATION OF BUSINESS EXPENSES

We recently represented two business clients in audits; one an IRS audit and the other a Virginia Use Tax audit. Through the course of the audits, we discovered that neither client had retained receipts for business expenses processed by 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 the same as you would have to support a check written.

We are attaching 2 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,
Bonnie J. Dennis, EA
Keith King, EA
Rebecca R. Schmidt, CPA, EA
Jacob Jaeger, EA

January 2018

**CREDIT CARDS - LOVE TO USE THEM.
HATE TO CODE THEM!**

As an operating business I completely understand the use of credit cards to charge business purchases. At our firm we use them frequently due to the convenience factor. The problem with using the credit card lies in the fact that you MUST accumulate the receipts to match to the month end statement and before sending us the statement identify the expense category code for each charge.

Please remember that the monthly statement does not constitute sufficient documentation for the expense deduction. You must have the receipt the same as you have to support the checks you write, debit transactions and online purchases.

Also, when you send us the statement you must identify the expense category the same way you do for the checks you write. We cannot be responsible for claiming a business expense deduction for a credit card charge without your direction. If you do not identify/code the credit card charge we are forced to code it as a personal expenditure. That's not the result we want.

As I'm sure you can imagine the new world of credit card charges, online purchases and bank debit transactions has created the need for new processes in order to maintain the high quality of accounting as in the past. Your understanding will greatly assist in our desire to provide you with top quality accounting.

Please feel free to call me or any of the partners if you would like to have a comprehensive discussion regarding the reporting requirements.

My best regards,

Bonnie J. Dennis, E.A.

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Dear Credit Card Client,

Once again I find myself on what seems the never ending quest to organize and simplify the use and recording of credit cards when used by business.

PROBLEMS:

1. Credit card statements not coded by business expense category.
2. Monthly coded credit card statements 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,

Bonnie J. Dennis, E.A.