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To All of Our Valued Clients and Friends:

We are pleased to send you our November 2002 newsletter. Our topics for this newsletter are as follows:

**Substantiation of Travel and Entertainment Expenses**

In order to deduct travel expenses and entertainment expenses, taxpayers are required by tax law to maintain substantiation and supporting records. Although this rule has been around a while, taxpayers are still having trouble complying with them. As a result, these expenses are still targeted for review by the IRS. To reduce the problems in deducting these expenses and save on taxes, please read the attached outline of the general substantiation rules.

**Protect Your Computer System**

Businesses today heavily rely on their computers and network systems. They cannot afford any downtime and need to safe guard their system not only from viruses and malicious hackers but also from electrical power surges. Because power surges are unexpected, we need to be prepared with the proper preventive equipment. And since there are many types of equipment available, please read the following article to gain an understanding of some of the important rating specifications when making your selection.

Kakimoto and Co. offers reliable services in the areas of audit, accounting, tax, IT, and management consulting. We try hard to meet your expectations by providing high levels of technical expertise, customer service, and timeliness. We try to provide value to you for all of our services. If you are interested in any of our services or have any questions, please contact us at (310) 715-9100. For more information about our firm, please visit our website at <http://www.kakimoto.com>.

The Japanese version of this newsletter is available by request or through our website.

Kakimoto and Co.

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## **SUBSTANTIATION OF TRAVEL AND ENTERTAINMENT EXPENSES**

Deductions for travel and entertainment must be substantiated by supporting records. The use of estimates, even seemingly reasonable estimates, is not adequate to uphold a deduction in the face of an IRS challenge. Taxpayers must be able to establish the amount, time, place, and business purpose for their expenditures, and the business relationship of those involved. No deduction is allowed for travel and entertainment expenses unless the expense is substantiated by adequate records or by sufficient corroborating evidence. This rule applies to travel expenses, including, meals and lodging away from home, entertainment, local transportation, business gifts, and all listed property (including passenger automobiles).

Records must be kept showing all of the following: 1) the amount of the expense; 2) the time and place of the travel and entertainment, or use of the facility or property (for example, the use of a business car); 3) the business purpose; and 4) the business relationship to the taxpayer of the persons entertained (in the case of business entertainment).

Records should be maintained in a diary, log, or other format (i.e., a daily expense report, trip sheet, etc.). The use of reasonable estimates to substantiate the expense is not sufficient. In addition, documentary evidence (such as a written receipt) is required for expenses of \$75 or more. This, however, does not apply to transportation expenses where documentary evidence is typically not readily available (taxi fare, for example).

The records do not have to be maintained in paper form and may be electronic. Even so, a computer-generated report alone, absent receipts or other documentary evidence, is not generally sufficient to support a deduction. However, with the exception of out-of-pocket expenses, business usage of listed property (such as automobiles) may be tracked on a computer. Note that documentary evidence does not have to be in an “original receipt” form; A copy, fax, or email are considered adequate records.

Employers must also maintain adequate records for travel and entertainment expenses which are reimbursed to employees. An employee who is reimbursed for expenses must account to their employer by providing an account book, diary, log, trip sheet, or other similar record that provide the specifics described above. The employee’s own statement, without supporting documentary evidence, is not sufficient substantiation.

As a simplification, the IRS has approved the use of credit card records as a means of substantiation. Credit cards can be issued to the employees who may then, in turn, either request reimbursement for their expenses or ask the employer to directly pay the credit card company. The company ultimately receives detailed electronic receipts directly from the credit card company, and in many cases no additional substantiation is required. However, the general substantiation rules discussed above still apply and to the extent the credit card company cannot provide enough information on the electronic receipts to substantiate the expenses, additional records may be required.

One major exception to these record-keeping requirements is for businesses that prohibit any personal use of company vehicles. If a company has a policy statement prohibiting personal use of its vehicles, the employer has satisfied the substantiation requirements, provided the following conditions are met:

- 1) The automobile is owned or leased by the employer and is provided to one or more employees for use in connection with the employer's trade or business,
- 2) When the automobile is not used in the employer's trade or business, it is kept on the employer's business premises,
- 3) No employee using the automobile lives at the employer's business premises,
- 4) Under the employer's written policy, employees cannot use for the automobile for personal purposes, except for de minimis personal use (i.e., stop for lunch between two business deliveries), and
- 5) The employer reasonably believes that there is no personal use of the automobile.

Although the rules to keep detailed records have been around a while, taxpayers are still having trouble complying with them. To qualify for the deduction, set up careful and detailed record-keeping procedures to keep track of travel and entertainment expenses and justify its business connection.

## **PROTECT YOUR COMPUTER SYSTEM**

We are living in the Information Age where we depend on technology to create, transmit and store data every day. The energy needed to power computers and electronic devices is struggling to keep up with the rate of technological changes. In many locations, power generation has not developed at the same pace as technology equipment. And with today's technology devices containing smaller, and more delicate and sensitive components, the devices becomes even more susceptible to power damage. Protecting your system against power surges and backing up data can prevent experiences of downtime in cases of an electrical disaster.

Surge suppressors and uninterruptible power supplies (UPS) are two choices available to prevent power surges. Surge suppressors are the least expensive of the two choices, and are usually used with less sensitive hardware. Although these units block or absorb surges, they have limited capabilities and do not provide much protection against bigger surges or spikes. UPSs can provide battery backup power to a single PC or an entire data center. In the event of a power shortage, the battery power will allow the system to remain on for certain amounts of time. Some units also have the capability of properly shutting down the system. There are many different types of UPSs available on the market today to accommodate the simple to the more complex systems.

Whether your system is simple or complex, there are a few rating specifications which should be evaluated.

- Verify the unit's capabilities by checking the Underwriters Laboratories (UL) label. UL is an independent, company that tests electric and electronic products for safety. All electrical units should have a UL label.
- Find a unit with a low clamping voltage of 400 or less. A clamping voltage is the point at which the unit will start suppressing electricity. The lower the clamping voltage, the better the protection.
- Determine the unit's energy dissipation/absorption rating. Energy dissipation/absorption is the amount of electricity that can be absorbed before it fails. The higher number of energy dissipation/absorption ratings indicates greater protection. A unit that can absorb at least 200 to 400 joules before it fails is sufficient, a rating of 600 joules is better.
- Select a unit with a response time of less than one nanosecond. The response time is the time it takes for the unit to act. A longer response time indicates the hardware will be exposed to the surge for a greater amount of time.

The cost of an UPS is a small investment when compared with the cost of replacing or repairing sensitive equipment. In our experience, many companies are unaware that inexpensive surge suppressors do not provide adequate protection. Worse, they give companies a false sense of security, leaving them open to the possibility of major replacement or repair costs for both hardware and valuable data.

Businesses rely on their system network, and cannot afford any type of downtime. For continuous operation, be prepared and take advantage of the preventative hardware available to avoid losing vital business data and equipment, which will ultimately save both time and money.