

# *Dena Lacy Hartzell, CPA, Ltd. Inc.*



DENA LACY HARTZELL, CPA, Ltd. Inc.

7048 MORALES CIRCLE, LAS VEGAS, NV 89119

Phone: (702) 361-3914

Fax: (702) 361-1278

EMAIL: [mail@denahcpa.com](mailto:mail@denahcpa.com) Website: denahcpa.com

---

## **AUDIT ALERT!**

**(It is essential that all clients read this!)**

The following information is not meant to be a comprehensive list nor the complete wording of tax law, rules & regulations. This summary is not meant to replace tax advice on your specific tax situation nor is it meant to be relied on by existing clients or third parties. We are not responsible for any errors or omissions. This is not meant to be legal, accounting or other professional service. If legal advice or other expert assistance is required, the services of a competent professional should be sought. These materials are informational in nature and users of these materials may not rely upon them to avoid imposition of tax penalties.

The taxpayer is under the burden of proof for verification of income and deductions to the Internal Revenue Service if the tax return is audited. The Internal Revenue Service cannot assess taxes, penalties, and interest against the taxpayer without considering the proof, but the proof must be verifiable. The purpose of this audit alert is to help my clients understand what a deduction is and what records must be maintained to have acceptable proof in the case of an audit. This audit alert cannot possibly encompass every audit area or potential problem but is meant to give my clients a better understanding of income and deductions that apply to many of them. I encourage my clients to call with specific questions. It is better to be safe than sorry. It is my belief that you should take advantage of every deduction that applies to you, but all deductions used should be able to hold up as a deduction on an audit.

**ALERT FOR 2018 FORWARD:** Although the Tax Reform Act made employee business expense nondeductible, some states allow the deduction. This means that you should still retain your employee business expenses unless you live in a state with no state income tax. Even if you live in a state with no state income tax, you may work at times in a state that does have state income tax if your work requires travel. For these reasons I have left references to employee business expenses throughout this audit alert. Self-employed workers still need to keep all their receipts, because they can still deduct them. Please note that entertainment is now limited to meals and drinks. You can no longer deduct shows, golf, etc. as entertainment.

**KEEP YOUR RECEIPTS, BANK STATEMENTS, CHECK REGISTER, TRAVEL AND TRANSPORTATION LOGS, CANCELLED CHECKS AND ANY OTHER ITEMS RELATING TO DEDUCTIONS OR INCOME ON YOUR TAX RETURN FOR A MINIMUM OF 7 YEARS. THE 7 YEAR TIME PERIOD IS THE LATER OF THE DUE DATE OF THE TAX RETURN, THE FILING DATE, OR THE DATE OF COMPLETE**

*Specializing in the Entertainment Industry*

Information as of 12/31/2024

# *Dena Lacy Hartzell, CPA, Ltd. Inc.*



**DENA LACY HARTZELL, CPA, Ltd. Inc.**

**7048 MORALES CIRCLE, LAS VEGAS, NV 89119**

**Phone: (702) 361-3914**

**Fax: (702) 361-1278**

**EMAIL: [mail@denahcpa.com](mailto:mail@denahcpa.com) Website: [denahcpa.com](http://denahcpa.com)**

---

**PAYMENT. IF AN ASSET IS DEPRECIATED OVER A NUMBER OF YEARS, THEN YOU NEED TO KEEP THE RECEIPT FOR AT LEAST 2 YEARS AFTER THE TAX RETURN WITH THE LAST OF THE DEPRECIATION ON IT. THERE IS A 3 YEAR STATUTE OF LIMITATIONS ON THE FEDERAL TAX RETURN, BUT THIS DOES NOT APPLY TO FRAUD; THERE IS NO STATUTE OF LIMITATIONS WITH FRAUD. FRAUD IS THE INTENTIONAL WRONGDOING WITH THE SPECIFIC PURPOSE OF EVADING TAX BELIEVED TO BE OWED. ALSO, SOME STATES HAVE A LONGER PERIOD, WHICH IS WHY I SUGGEST 7 YEARS. PAYROLL RECORDS FOR EMPLOYERS COULD REQUIRE KEEPING THEM FOR 10 YEARS DEPENDING ON THE STATE AND INCOME FOR SALES TAX MAY HAVE A LONGER PERIOD DEPENDING ON WHEN THE LAST SALES TAX AUDIT WAS DONE.**

Computer Receipts or other handmade receipts obtained from individuals for business expenses paid by cash or check will not hold up for an audit without verification from the person you paid. The best way to verify this is to issue a 1099-NEC. to the person paid. Although you may have the evidence of the payment with payment by check, the check does not verify what the person was paid for. The receipt and the checks should show what the payment is for and the receipt should have the person's name, address, tax identification number and be signed by the person as the recipient. The receipt should also have your name on it as the payer. (See Payments to Individuals...)

Debit and Credit Card charges on the statements do not show what was purchased. For example: A credit card charge to an office supply store may be a supply or it may be an asset, such as a printer or it could be a candy bar. The charge on your credit card statement or bank statement just gives a total without showing the detail of the store receipt. YOU MUST KEEP THE ORIGINAL RECEIPT OR A SCANNED COPY OF THE RECEIPT NOT JUST THE BANK OR CREDIT CARD STATEMENTS.

### **BUSINESS EXPENSES IN GENERAL:**

A business expense for the employee or self-employed must be reasonable and necessary for your CURRENT EMPLOYMENT. The employee must be able to show that the EMPLOYER REQUIRED the item of expense and that there was or was not a reimbursement from the employer. In audits, they ask for a letter from the employer stating what was reimbursed by the employer and what the employer required the employee to have. On self-employed they look at contracts to see what may be needed for the job.

Keep track of who hired you, and for what date, as an employee with the Company Name, Address, Phone and Contact Person. These verification letters are sometime hard to get timely from an employer, when there is an audit. KEEP YOUR CONTRACTS with your receipts. LOGS OR DIARIES kept at the time of the event containing information on the business purpose of travel, transportation, etc. are required for these types of deductions to be allowed.

*Specializing in the Entertainment Industry*

**Information as of 12/31/2024**

# *Dena Lacy Hartzell, C.P.A., Ltd. Inc.*



**DENA LACY HARTZELL, CPA, Ltd. Inc.**

**7048 MORALES CIRCLE, LAS VEGAS, NV 89119**

**Phone: (702) 361-3914**

**Fax: (702) 361-1278**

**EMAIL: [mail@denahcpa.com](mailto:mail@denahcpa.com) Website: [denahcpa.com](http://denahcpa.com)**

---

## **BANK STATEMENTS:**

For business bank accounts keep your BANK STATEMENTS & MICROFICHE COPIES OF THE CHECKS for the same time period as mentioned above on page one. For personal bank accounts keep the bank statements for a minimum of 3 years. Banks are very slow and charge fees to obtain duplicates. Keep bank statements for the month prior to the year being audited, for the year being audited, and for the month following the year being audited are required by the IRS on audits on both business and personal bank accounts. **They are looking for deposits greater than income declared and expense deductions more than is possible for the income.** Watch out for cash expenses greater than cash retained from your income or greater than cash withdrawn from your account. I do not recommend writing checks for business expenses on a personal checking account. **Also, be sure that your business bank statement has microfiche copies of the checks included with the statement.** Most bank websites will only let you go back 6 months for downloading the microfiche copies. Remember that if you are audited, you will be required to get copies from the bank and the bank charges quite a bit for this. Please see the heading MISSED INCOME for additional information on bank deposits.

## **BUSINESS GIFTS**

The IRS states, "You can deduct no more than \$25 for business gifts you give directly or indirectly to each person during your tax year." A husband and wife are considered one person. The gift is a deduction if it is to a person, who can benefit you in your work. For example: A boss, a manager, a line captain, an agent, a show owner. Generally, a gift to a coworker would not be a deduction, unless you are in a position above that person (a line captain, for example) and are trying to promote good will. The ONLY other time a gift to a coworker would be a deduction, is if they did something to help you with your career. You need to keep the receipt for the business gift and mark on it the person's name, the business relationship, and if they are a coworker: what they did to help you with your career? You can only count \$25.00 of the gift as a deduction. Because of the limitation on the amount to each person, the total amount of business gifts cannot be very high. How many people could you justify?

## **BUSINESS LICENSE: STATE OF NEVADA SPECIFIC**

The State of Nevada requires all self-employed workers to obtain a state business license unless they are specifically exempt. If exempt, the individual must be registered as exempt. Business owners and independent contractors need to secure a valid Nevada business license or an exemption to the state business license PRIOR to conducting any business activity.

## **CLOTHING-COSTUMES-REHEARSAL WEAR:**

Rehearsal wear is limited to specific items, such as dance shoes, leotards, tights, etc. Clothing that is adaptable to street wear will not be allowed unless there is a logo on it. For example: You cannot deduct sweats, unless you have your stage name on it. Costumes must be specifically for the stage. Keep pictures of yourself in costumes to be able to verify that the dress or suit you bought has been decorated and worn on stage. For example: It has to be a costume not just a dress or suit for a television talk show. G-strings are allowed even if you do not have a receipt as

*Specializing in the Entertainment Industry*

**Information as of 12/31/2024**

# *Dena Lacy Hartzell, C.P.A., Ltd. Inc.*



**DENA LACY HARTZELL, CPA, Ltd. Inc.**

**7048 MORALES CIRCLE, LAS VEGAS, NV 89119**

**Phone: (702) 361-3914**

**Fax: (702) 361-1278**

**EMAIL: [mail@denahcpa.com](mailto:mail@denahcpa.com) Website: [denahcpa.com](http://denahcpa.com)**

---

they come under the less-than-\$75.00 exception for items, which you must have and are going to be continuously purchasing because they wear out. Costumes do not come under the less than \$75.00 exception for a receipt, because it is much harder to prove what length of time it takes for them to wear out. The laundry of the rehearsal wear and costumes can be estimated, but you must have a receipt for the costumes and rehearsal wear for it to be allowed. Clothing for an audition, party related to work, modeling, or convention is not allowed as a deduction, unless your stage name is on the clothing. The courts have disallowed the clothing worn by a television news anchorwoman along with the make-up and hair care.

## **ESTIMATED TAXES: PLEASE READ THE LAST LINE OF THIS PARAGRAPH**

Many self-employed taxpayers feel that they don't want to pay estimated tax but would rather pay with their tax return. The problem with this is that there are underestimated tax penalties, if the payments are not made and not made in equal installments by the due date for each installment. Also, there is the possibility that when it is time to file the tax return you may be out of work and not have the money. Then you would be subject to additional fees by the IRS for setting up installment payments and the late pay penalty and interest. Why pay the IRS more than you must?

Warning: The April 15 payment could be for the prior year's extension or for the first quarter estimated tax payment. Please be sure it is the estimated tax payment, before marking it as such on the list of deductions. For many of my circus clients I only do a June and September estimated tax coupons. This is because they generally are not working early in the year or late in the year. This does trigger some underestimated tax penalty, unless I use the annualized income method. I need specific amounts earned for each period January 1 through April 15, April 16 through June 15, June 16 through September 15, and September 16 through December 31 in order to be able to do the annualized method. **There is an estimated tax penalty for WILLFULL non-payment for the evasion of taxes of \$25,000.00 and a potential up to one year in jail.**

## **EXTENSIONS:**

**WARNING PREPARERS CANNOT TRANSMIT AN EXTENSION WITH DIRECT DEPOSIT PAYMENT WITHOUT SIGNED AND DATED PERMISSION FROM YOU.**

Extensions must be filed by April 15 unless out of the country and are valid until October 17<sup>th</sup>. Extensions on S corporations and partnerships must be filed by March 17 and are valid until September 15. Extensions can be sent by the preparer without your signed permission but, if money is owed with the extension, then there must be time to get the payment form to you or the form requiring a signature for permission to withdraw from your bank account with the extension. If you owe tax money past the April 15<sup>th</sup> deadline, then the late pay penalty and interest are added by the IRS. The highest penalty for failure to file is 5% per month starting with the month of April up to a maximum of 25%. In other words, if you do not file an extension, by August you will owe another 25% of the tax still owed and additional percentages for late pay and interest. If you do not have the money to pay your taxes, you are better off filing the tax return and setting up installment payments, rather than not filing and being subject to the failure to file penalty. When you wait too late to file your tax return, you also do not have any idea of what your estimated

*Specializing in the Entertainment Industry*

**Information as of 12/31/2024**

# *Dena Lacy Hartzell, C.P.A., Ltd. Inc.*



**DENA LACY HARTZELL, CPA, Ltd. Inc.**

**7048 MORALES CIRCLE, LAS VEGAS, NV 89119**

**Phone: (702) 361-3914**

**Fax: (702) 361-1278**

**EMAIL: [mail@denahcpa.com](mailto:mail@denahcpa.com) Website: [denahcpa.com](http://denahcpa.com)**

---

taxes for April should be, and so usually end up with underestimated tax penalties on the next year tax return. Many clients do not want to be faced with what they owe. They wait to file the tax return until they have some extra money. As you can see from what I have just explained in this paragraph, the client ends up paying quite a bit more to the U.S. Treasury this way. By preparing your tax return early, you at least know what is owed and what your estimated tax payments should be. This gives you time to gather the money by the deadline. For partnerships and corporations, the failure to file is assessed per partner per month. This can be quite a large amount.

### **HOME OFFICE DEDUCTION:**

The deduction for a home office is the percentage of rent/depreciation, repairs, and utilities that are computed based on the square footage of the home office in relation to the total square footage of the home. The percentage is used to utilize the simplified method. For homes owned by the taxpayer, the land value must be removed from the cost to arrive at the basis for depreciation. For homes rented by the taxpayer, the land value must be removed from the total rent cost to arrive at the basis for the rent deduction. If the home is a condominium or apartment, there would be no land value to consider. For home offices the depreciation is taken over 39.5 years. This means the deduction is going to be very small and the portion of the home used as an office does not get the home gain exclusion but is allowed for like-kind exchange. Employees would have a hard time justifying that the home office is required for employment. The home office must be used EXCLUSIVELY and on a REGULAR BASIS for the deduction to be allowed. Starting back in 1999, the home office deduction was allowed even if the taxpayer has another place for conducting business provided that the administration and management duties are done consistently and mainly in the home office. For employees the use of the home office must be required by the employer and is not deductible if there is a business location provided by the employer to work in. Instead of taking the depreciation for a home, you can take up to 300 square feet for a maximum of a \$1,500.00 deduction for a home office (or \$5 per square foot used for the business) provided you meet the other criteria. This seems to me more sensible than losing the primary residence capital gain exclusion for a portion of your home.

### **MAKE UP-HAIR CARE-WIGS-NAILS:**

Most contracts state that the entertainer must maintain a pleasant appearance. This allows for the deduction of makeup and hair care unless a show provides wigs and make-up to match the theme of the venue. If a show supplies wigs for use throughout the show and make-up, then hair care and make-up would not be a deduction. If the employee pays for the wigs for the show and is not reimbursed, then this may be a deduction unless it is the employee's choice to have an alternate wig. If you purchase a wig for the show, will the employer verify that they required you to have the wig? Skin care products and dermatology are not a deduction. The actual make-up and make up remover can be a deduction for those that use make-up on stage if they are not supplied. Nails are only a deduction if the employer requires them, or if you are self-employed. As stated above the IRS has disallowed make-up and hair care for those appearing on television.

*Specializing in the Entertainment Industry*

**Information as of 12/31/2024**

# *Dena Lacy Hartzell, C.P.A., Ltd. Inc.*



**DENA LACY HARTZELL, CPA, Ltd. Inc.**

**7048 MORALES CIRCLE, LAS VEGAS, NV 89119**

**Phone: (702) 361-3914**

**Fax: (702) 361-1278**

**EMAIL: [mail@denahcpa.com](mailto:mail@denahcpa.com) Website: [denahcpa.com](http://denahcpa.com)**

---

## **MISSED INCOME:**

I have occasionally had to amend a tax return after completion of the return, because a 1099-Nec. was received after the tax return was complete. PLEASE INCLUDE ALL YOUR INCOME! Just because you do not receive a 1099-Nec. does not mean one was not issued. It could have been lost in the mail. The payer of income may be behind in filing their taxes. They may issue the 1099-Nec. to you late or possibly in a later year. This means that you will have tax, penalties, and interest on the income, if you did not declare it.

When the IRS discovers missed income prior to an audit, they send a notice of proposed change. By the time you receive a notice of proposed change, there are penalties and interest added. Also, it is too late to add deductions that relate to this income, as that would signify you intentionally left the income off, which is fraud. Fraud is subject to high penalties. Also, the deductions that you claimed on your tax return, may relate to the missed income. How do you explain that in an audit?

In an audit the IRS is looking for missed income by going through contracts, bank statements, and the expenses claimed. It is a good idea to mark every deposit into your bank account by the source. *For example:* Pay for the week ending xx/xx/xx from the show XX. If deposits are from gifts from friends or family, can you prove this? If the deposits are from refunds, did you reduce the business deduction claimed by the amount reimbursed? If deposits are from loans, credit cards, etc., mark this also. By marking everything in your deposit register or in a calendar, it helps to avoid the auditor thinking it was fraud, when it was just innocently missed income. Many of my clients work for many different employers during the year as self-employed and as employee. It is very easy to miss one of these, especially if you only worked one day or week for that company. If you receive a residual from prior work, send a new W-4 to the payer so that you will receive the W-2 to your current address at the end of the year. In fact, if you change addresses, notify all employers that paid you for the current tax year. Don't forget to include unemployment income received during the year and interest income. For husbands and wives, I need the self-employed income separated by the social security number given to the payer. In other words, we need to show the income for each spouse separately within the joint tax return. We also need to separate out income charged on bankcards that will be reported on the 1099-K. Please look at the list of deductions for this.

## **PAYMENTS TO INDIVIDUALS-CHOREOGRAPHER FEES, CASUAL LABOR, CONTRACT LABOR, STAGE TIPS:**

You should get the individual's name, address and tax identification number on a W-9 to deduct these items. If you pay the person \$600.00 or more, a 1099-Nec. must be postmarked to the person by the 31st of January. You should have the person (recipient) sign a receipt for each payment of money. The receipt should show what they did for the money. I would suggest printing the individual's name, address and social security number on the receipt and having them sign it. The receipt should have your name on as the payer. If it is impossible to get a receipt for stage tips, then keep a log of the payment showing the amount, who it was to, the time-period it

*Specializing in the Entertainment Industry*

**Information as of 12/31/2024**

# *Dena Lacy Hartzell, CPA, Ltd. Inc.*



**DENA LACY HARTZELL, CPA, Ltd. Inc.**

**7048 MORALES CIRCLE, LAS VEGAS, NV 89119**

**Phone: (702) 361-3914**

**Fax: (702) 361-1278**

**EMAIL: [mail@denahcpa.com](mailto:mail@denahcpa.com) Website: [denahcpa.com](http://denahcpa.com)**

---

was for, and what show you were in at the time. Payments to lawyers of \$600.00 or more for business related work requires the issuance of a 1099-Nec. to the attorney or law firm, even if they are a corporation. Attorneys and law firms that are corporations are the only corporations requiring issuance of a 1099-Nec., but LLC's or partnership also require a 1099-Nec. Of course, you must issue a 1099-Nec. to any individual paid \$600.00 or more.

A filled-in W-9 is your verification that the person you paid does business as a corporation. A letterhead or business card from a business with Inc, after the name also helps for verification that the business is a corporation. I would suggest checking on the Secretary of State website in case the corporation has been dissolved or revoked. In this case, you need to issue the 1099-Nec. to the individual who performed the service instead of the defunct corporation. The Secretary of State website has public information retrievable by anyone. I know of one state, Delaware, where you cannot see the shareholders on the website. Most agents are corporations. Does your contract state that an agent is to be paid a commission for your work? If not, a separate agreement with the agent would verify the deduction or at least a letter of agreement on the agent's letterhead. You should keep the receipts for all payments, whether the person is an individual or a corporation. Don't forget that if you receive the 1099-Nec. from the agency net of the agency commission, then you cannot deduct the commission as it is already removed from the income.

## **PLANNING:**

Tax planning can save you tax dollars. I would suggest going through the Tax Highlights 2024-2025 to see not only what applied to the prior year tax return under preparation, but also to see what applies to you on the current tax year. I encourage clients to call during the year before taking action to see what the tax consequences will be. If a client comes to me at the end of the tax year, and says I did XYZ, it is too late no matter what the tax consequences.

Consideration should also be made, when you have a choice to be paid as an employee or self-employed. This should be considered before signing the contract for the work.

Furthermore, before taking work outside of the United States, you need to know the U.S. and Foreign Tax, which may apply. It would be hard to know if you are signing a contract for enough money for work outside of the United States without knowing the U.S. and foreign taxes, which may be assessed. There is a **foreign earned income exclusion**, if you are out of the country **330 out of 365 days**, but the self-employed person is still subject to U.S. social security and Medicare tax on the net income. Some countries require you to pay into their pensions (Equivalent to Social Security) dependent on the number of days spent in the country. There are totalization agreements between the U.S. and many other countries. You need to find that out ahead of time, because as a self-employed person you can apply for verification from that country on the requirement to pay their government pension and apply for exemption from paying social security and Medicare tax here on that income or get an exemption from paying there, with a proof of filing a U.S. resident tax return. It takes quite a while to get these certificates. If you are paid in the other country as an employee, then you would have verification of paying the pension on your periodic pay stubs

*Specializing in the Entertainment Industry*

**Information as of 12/31/2024**

# *Dena Lacy Hartzell, CPA, Ltd. Inc.*



**DENA LACY HARTZELL, CPA, Ltd. Inc.**

**7048 MORALES CIRCLE, LAS VEGAS, NV 89119**

**Phone: (702) 361-3914**

**Fax: (702) 361-1278**

**EMAIL: [mail@denahcpa.com](mailto:mail@denahcpa.com) Website: [denahcpa.com](http://denahcpa.com)**

---

and/or on the end of year statements. There is a foreign tax credit that can be taken in place of the foreign earned income exclusion, which does not have the criteria of being away from the USA for a set number of days. This foreign tax credit offsets your U.S. Income Tax. Lastly, Foreign Tax Treaties sometimes exempt you from paying foreign taxes based on the number of days and/or amount.

The GSA website has the U.S. per diem and the Dept of State website has the foreign per diem. You can get a rough idea of what the cost of living is for these areas by going on these websites before signing contracts for that area.

Planning also involves taking advantage of expiring tax provisions in the current year, before they expire. For example: If capital gains rates are slated to go up in the following year, then selling stocks during the current year may be wise. You may also be able to sell off loss stocks to offset the gain on stocks. Studying the Tax Highlights on my website each year may give you an idea of what is changing from the prior tax year to the current year. Of course, the late legislation with extenders over the past few years has made it harder to do this type of tax planning, because we are not aware of the exact rates until late in the year or sometimes not until the following year. It makes planning more difficult.

## **PREPARATION DEADLINE:**

**TAX RETURN INFORMATION & EXTENSION INFORMATION MUST BE RECEIVED BY ME BY February 1<sup>st</sup> for the March 17<sup>th</sup> deadline for entities and MARCH 1<sup>st</sup> for the April 15<sup>th</sup> individual deadline.**

The reason I need your tax information by these dates even when you are going on an extension is to be sure that you pay enough tax by the due date of the tax return without extensions. The penalties and interest start at the due date of the tax returns without the extension. Also, if you need estimated tax, it gives me the opportunity to do an estimate for the upcoming tax year. To be fair to all clients, I prepare the tax returns in the order the tax information is received. As the deadlines get closer, I receive a higher volume of tax information each day. This means I will not be able to work on your tax return on the date received. Generally, I am about 2 weeks behind going into the deadline. This leaves very little time for you to get missing information, which may mean an extension will be required. Please feel free to give my staff information, they make sure that I receive all information given to our office.

When preparing your tax return, if I find I am missing information or need something clarified, we will contact you. Please be sure we have all current phone, fax and email numbers. If you are waiting on some item of information, please send the rest with a notation of that item missing. PLEASE GO THROUGH THE LIST OF DEDUCTIONS. I FIND THAT I RECEIVE MORE COMPLETE INFORMATION WHEN A CLIENT HAS GONE THROUGH THE LIST.

*Specializing in the Entertainment Industry*

**Information as of 12/31/2024**

# *Dena Lacy Hartzell, C.P.A., Ltd. Inc.*



**DENA LACY HARTZELL, CPA, Ltd. Inc.**

**7048 MORALES CIRCLE, LAS VEGAS, NV 89119**

**Phone: (702) 361-3914**

**Fax: (702) 361-1278**

**EMAIL: [mail@denahcpa.com](mailto:mail@denahcpa.com) Website: [denahcpa.com](http://denahcpa.com)**

---

Furthermore, I have found with the popularity of emails, that clients send tax information a little at a time. Remember that I do not work on the tax return until the majority of the information has been received. When I have gone through it and have a list of questions, I do not pick it up again until all questions are answered. My employees will check off the questions answered and give it to me to finish, when we have all answers. You may have sent partial information a month earlier, but I cannot do a tax return without complete information. Also, when you change an amount for a deduction, please let us know if this is a new total or an addition to the amount already given.

### **REPAIRS/SUPPLIES vs. ASSETS:**

If an item is improperly classified as a repair, supply, etc., when it is really an asset, the IRS can reclassify it in an audit. This means they will spread out the deduction over the years designated for that item for depreciation. This will decrease your deduction and generate a tax liability on an audit. Assets can be expensed directly (IRC Sec. 179 or Bonus Depreciation) with certain limits as to total amounts, taxable income, etc. (See Tax Highlight for Limits). When the IRS discovers an item listed as a repair, supply, etc., which really should have been classified as an asset, the direct expensing of IRC Sec. 179 is lost. This causes a lower deduction on the year being audited and an amendment of the returns that follow. It is very important that you understand what an asset is. The last page of the List of Deductions lists some of these items. Repairs replace an existing part of an asset and does not increase the value or life. They are what it costs to keep an asset in workable condition. Some replacements are not considered repairs. For example: A new engine in a truck used for business is an asset not a repair. Other items are considered a repair. For example: Replacing a broken windshield in a truck used for business. This does not extend the life of the vehicle. For clients who travel a lot of miles for business, some major parts to an engine would be considered a repair, because of the constant replacement. I would suggest listing items separately on the asset list, if you are not sure if it should be categorized as an asset or a repair or supply.

There are repair vs. capitalization rules. Under Treas. Reg. 1.162-3 a small asset costing \$2,500.00 or less for 2016 forward with an election on the tax return can be expensed as small equipment and not treated as an asset to be capitalized and depreciated. If the asset is more than \$2,500.00 (2016 forward) each, then you must capitalize it and depreciate it or use the Section 179 election or bonus depreciation. There is a higher de minimis limit going as high as \$5,000.00 for taxpayers with audited financial statements, but few smaller businesses can afford to have audited financial statements prepared, so this would not be applicable to most readers of this audit alert. Also, under Treas. Reg. 1.263(a)-3(h) a taxpayer can make an election with the tax return to NOT capitalize repairs and improvements to eligible buildings, if the average annual gross receipts are \$10M or less and the building that is owned or leased has an adjusted basis of \$1M or less. The election allows the lesser of \$10,000 or 2% of the unadjusted basis of the building to be deducted instead of capitalized. There are several other new repair v capitalization rules, which are too lengthy to go into here. If you use the asset list at the end of my list of deductions, I will be able to see what elections may apply to your particular tax situation. Please list every asset costing \$500.00 or more, because I must make an election with the tax return. If the asset is

*Specializing in the Entertainment Industry*

**Information as of 12/31/2024**

# *Dena Lacy Hartzell, C.P.A., Ltd. Inc.*



**DENA LACY HARTZELL, CPA, Ltd. Inc.**

**7048 MORALES CIRCLE, LAS VEGAS, NV 89119**

**Phone: (702) 361-3914**

**Fax: (702) 361-1278**

**EMAIL: [mail@denahcpa.com](mailto:mail@denahcpa.com) Website: [denahcpa.com](http://denahcpa.com)**

---

buried in a total for small equipment or put in supplies or repairs, I will not know that an election needs to be made.

### **START UP COSTS:**

When someone starts a new business, generally before they can earn income, they spend money to get things going. These expenses prior to opening the business must be kept separate from the other expenses and must be categorized as start up expenses.

### **TRANSPORTATION-VEHICLE EXPENSE:**

A contemporaneous hand-written log showing the in-town business miles is required to get this deduction. For example: A log of a) miles back and forth to dance class for a dancer b) miles from a first job to a second job and back c) miles back and forth to work a second time in a day because of rehearsals, etc., and d) miles relating to purchasing business items. Please keep the transportation miles relating to employee and self-employed work separate. If the transportation is for a non-deductible expense, then the miles are personal and non-deductible. For example: Gym memberships are not deductible, therefore, miles to and from the gym are not deductible.

### **TRAVEL AND TRAVEL LOGS:**

**Travel must have a business purpose.** In order to prove a business purpose, the IRS requires a hand-written contemporaneous **TRAVEL LOG** be maintained. This includes the time of travel with notation of how the travel was done (Car, Plane, Etc.), where the travel originated and the destination, the dates of travel, and the business purpose of the travel.

If the travel log is not supplied on an audit, the IRS can disallow the deduction. If the travel was not for specific work done at the time of the travel (for paid work), then the name of the person seen, the company name and address, the type of business relationship, the type and name of show are all required. Car rentals are looked at very carefully. Why did you rent the car and not travel in your own vehicle? If your travel is for paid work, then the car rental will only be a deduction if the time rented is less than a week. Commuting to work is not a deduction for car rental. Generally, a stay of more than a week for paid work will make the car rental nondeductible commuting. There are some exceptions for temporary work out of town. If you work on a cruise ship, the taxis and/or car rental are only a deduction, if you log the business purpose of needing them. For example: Did you go off the ship to get business supplies, etc.? Please fill in the travel miles on the list of deductions separating employee travel miles from self-employed travel miles. This can be done easily if the travel log is maintained. It is much more difficult after the fact trying to remember the details and the IRS does require the log to be done at the time the travel occurs. See Travel-Vehicle Expense for more details on travel miles and transportation miles.

### **TRAVEL-AWAY FROM HOME EXPENSES:**

**In order to deduct travel expenses, you must be away from home.** In other words, there must be a duplication of living expenses. You must own or rent a home, apartment, etc. or share expenses of the household that you are away from. You must be able to verify that you paid expenses of the household by cash receipts, cancelled checks, money orders, etc. If you are not

*Specializing in the Entertainment Industry*

**Information as of 12/31/2024**

# *Dena Lacy Hartzell, C.P.A., Ltd. Inc.*



**DENA LACY HARTZELL, CPA, Ltd. Inc.**

**7048 MORALES CIRCLE, LAS VEGAS, NV 89119**

**Phone: (702) 361-3914**

**Fax: (702) 361-1278**

**EMAIL: [mail@denahcpa.com](mailto:mail@denahcpa.com) Website: [denahcpa.com](http://denahcpa.com)**

---

on the lease or deed, then you also need a verification letter from the person who is stating that you shared expenses of the household. You must return to the home when not working and whenever the opportunity arises when working. After one year of working in one location or the date that you know you will be staying in that location for one year or more, you are not allowed the **away- from- home expense deduction**.

**Self-employed persons and employees spending more than the per diem received from their employer for lodging, must use the actual hotel receipts instead of the per diem.** Self-employed may use the per diem for meals.

Also, you are not allowed travel if you sign a contract for one year or more for the same location. The IRS has extended this provision further in its interpretations in Revenue Rulings, which state that working away -from- home continuously for one employer over a year, even if you travel and are not in one location, causes the away-from-home expenses to be disallowed. In other words, if you sign a two-year contract with a traveling show, then you are not allowed the away- from-home expenses even in the first year. If you are not eligible for the travel expense deduction, you may still be able to deduct vehicle expenses as the additional cost for hauling work related equipment and a small percentage of the trailer for hauling business equipment. To deduct a section of the trailer as an office, the area within the trailer must be used **EXCLUSIVELY** for business. In other words, that section of the trailer cannot have personal use.

## **TRAVEL-MEALS AWAY FROM HOME:**

If you meet the criteria for being away from home, then meals are a deduction for each working person. (See Travel-Away from Home Expenses) You can keep the actual receipts, or the IRS published per diem rates can be used. I need a travel log (Show Route Sheet) in order to maximize your deduction. If you tell me you were away from home for 250 days, I can only use the lowest per diem rate for meals. If you give me specifics, I will be able to count a higher rate for localities with higher rates.

The GSA & IRS publish per diem rates for within the US and its territories; the State Department publishes per diem rate for outside of the United States. The rates in some countries are extremely high. The per diem deduction for meals is limited to the lower of the per diem rate or what you could have spent on meals based on your income. Therefore, I would need to know what money you were able to set aside (save) out of this work, to know how much you could have possibly spent on deductible meals. If you receive per diem as an employee, the amount received must be subtracted from the total meals.

## **TRAVEL-VEHICLE EXPENSE:**

**KEEP A MILEAGE LOG!** You need a separation of employee travel & transportation miles, self-employed travel and transportation miles, commuting and personal miles. In other words, you need to separate the total miles into each category. If you do not have the log, the vehicle expense could be disallowed entirely by the IRS in an audit. At the beginning or at the end of each year write down the odometer reading on your vehicle. If you change vehicles during the

*Specializing in the Entertainment Industry*

**Information as of 12/31/2024**

# *Dena Lacy Hartzell, C.P.A., Ltd. Inc.*



DENA LACY HARTZELL, CPA, Ltd. Inc.

7048 MORALES CIRCLE, LAS VEGAS, NV 89119

Phone: (702) 361-3914

Fax: (702) 361-1278

EMAIL: [mail@denahcpa.com](mailto:mail@denahcpa.com) Website: [denahcpa.com](http://denahcpa.com)

---

year, mark down the ending odometer reading before selling or trading the vehicle, and the beginning odometer reading for the new vehicle. There needs to be a business purpose for the vehicle expenses to be a deduction. If you travel with your work, you must be able to show that the vehicle is needed for hauling your business equipment, unless you are eligible for the away-from-home deductions required by work. (See-[Travel & Travel Log and Travel-Away From Home Expenses & Transportation-Vehicle Expenses.](#))

**NOTE: KEEP TRANSPORTATION & TRAVEL AND MILEAGE LOGS OR THE DEDUCTIONS RELATING TO THEM WILL BE DISALLOWED ON AN AUDIT.** If you missed logging some mileage during the day, there are many map type programs on the internet to get the mileage. **WRITE DOWN YOUR ODOMETER MILES AT THE BEGINNING OF EACH YEAR.**

**AUDIT FEES:**

**I require reimbursement for expenses involved in audits, i.e. travel. If I am required to go through your receipts in preparation for the audit, there is a charge per hour for the time.**

INFORMATION ON THIS WEBSITE IS NOT INTENDED OR WRITTEN TO BE USED AND CANNOT BE USED AS OR CONSIDERED WRITTEN TAX ADVICE. ANY INFORMATION CONTAINED ON THIS WEBSITE REPRESENTS A GENERAL OVERVIEW OF TAX DEVELOPMENTS AND SHOULD NOT BE RELIED UPON WITHOUT AN INDEPENDENT, PROFESSIONAL ANALYSIS OF HOW ANY OF THESE PROVISIONS MAY APPLY TO A SPECIFIC SITUATION. ANY INFORMATION CONTAINED ON THIS WEBSITE IS NOT INTENDED OR WRITTEN TO BE USED BY YOU FOR THE PURPOSE OF PROMOTING, MARKETING, OR RECOMMENDING ANY TAX-RELATED MATTERS ADDRESSED WITHIN TO ANOTHER PARTY. YOU ARE NOT PROHIBITED FROM SHARING THIS INFORMATION WITH THIRD PARTIES. HOWEVER, THE THIRD PARTIES SHOULD SEEK PROFESSIONAL ANALYSIS BY AN INDEPENDENT TAX ADVISOR ON HOW ANY OF THESE PROVISIONS MAY APPLY TO THEIR SPECIFIC TAX SITUATION.

-----

*Specializing in the Entertainment Industry*

Information as of 12/31/2024