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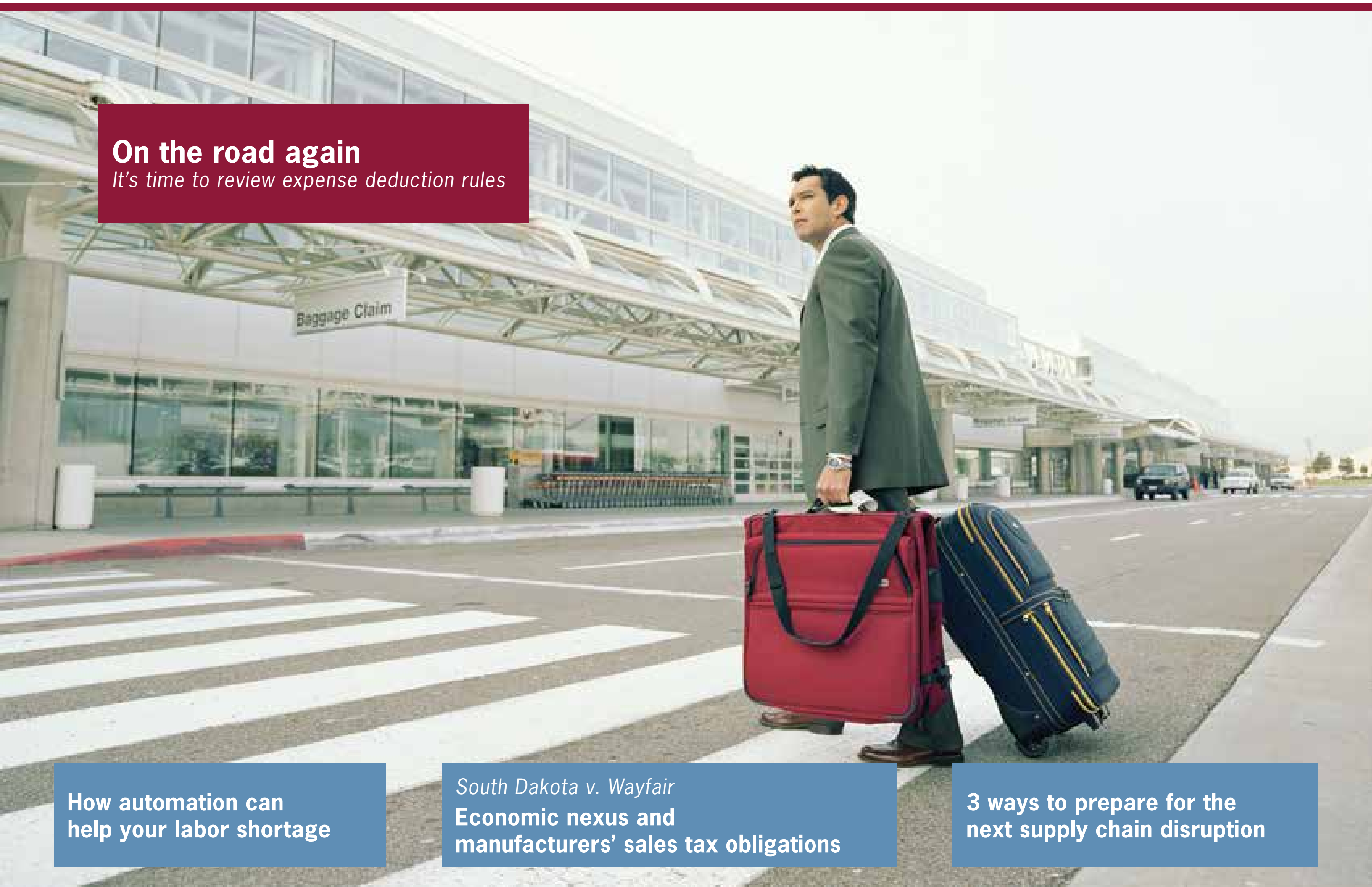

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It's time to review expense deduction rules

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3 ways to prepare for the next supply chain disruption

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On the road again

It's time to review expense deduction rules

The COVID-19 pandemic isn't over, but business travel is starting back up. So, it's a good time to revisit the tax rules for deducting business travel expenses. Note: This article reviews the deductibility of domestic travel expenses; special rules apply to foreign travel.

The basics

An employer may deduct an employee's ordinary and necessary expenses for travel away from home on business. While self-employed individuals may also deduct these expenses, employees aren't currently permitted to deduct unreimbursed travel or other business expenses. (See "Do you have an accountable plan?" on page 3.)

Travel expenses are "ordinary and necessary" if they're business-related, reasonable under the circumstances, and not lavish or extravagant. Unfortunately, there's no bright-line definition of "lavish or extravagant."

Generally, travel is considered "away from home" if:

1. It requires an employee to be away from the general area of his or her tax home for substantially longer than an ordinary day's work, and

2. The employee can't reasonably be expected to meet the demands of the work without sleep or rest.

Typically, one's tax home is the general vicinity (city and surrounding suburbs) of his or her regular place of business. Special rules apply for employees who work in several places, don't have a fixed place of business (for example, because they're on the road most of the time), or are on temporary assignment away from their regular place of business.

Traveling away from home doesn't necessarily require an overnight stay. Let's say you drive to a city four hours away, meet with clients and prospects all day, and then catch a few hours of sleep at a hotel before driving back at 10 p.m. Because it would be unreasonable to expect you make the round trip in one day without rest, you're considered to be traveling away from home for tax purposes.

Travel deductions

So, what can employers deduct? Deductible travel expenses include, but aren't limited to:

- Transportation expenses, such as air, rail or bus fares, or the costs of operating and maintaining a car,
- Taxi fares or other local transportation expenses,
- Baggage charges,
- Hotel or other lodging expenses,
- Meal expenses (subject to the rules discussed below),
- Dry cleaning and laundry expenses, and
- Telephone or computer rental expenses.

To substantiate these expenses, employees must keep credit card receipts, canceled checks, bills or other adequate records for all lodging, as well as other travel expenses greater than $75 (although some employers require documentation of all expenses). These records should show the amount, date, place and essential character of the expense.

Do you have an accountable plan?

The Tax Cuts and Jobs Act eliminated most miscellaneous itemized deductions, including unreimbursed employee business expenses, through 2025. The best way for employers to ease this burden on employees is to reimburse their business expenses. The employer deducts the expense, and the employee isn't taxed if the reimbursement is made pursuant to an "accountable plan."

A plan is accountable if it requires:

- Reimbursed expenses to have a business purpose, and
- Employees to meet certain requirements for substantiating expenses and pay back any excess reimbursements within a reasonable time.

Absent an accountable plan, reimbursements received by employees for business expenses are treated as wages subject to income and payroll taxes.

Meal deductions

Ordinarily, business meals (including those consumed while traveling) are 50% deductible. However, under the Consolidated Appropriations Act of 2020, otherwise eligible business meals provided by a restaurant (including carryout) are 100% deductible for 2021 and 2022.

Employers can deduct the cost of meals employees eat alone when traveling. You're also permitted to take a deduction for meals if 1) a business owner or employee is present, 2) the meal is provided to a business contact (such as a customer, prospect, consultant or vendor), 3) the meal serves an ordinary and necessary business purpose, and 4) the meal isn't lavish or extravagant.

Entertainment expenses aren't deductible. But employers may deduct the cost of food or beverages provided during an entertainment activity if they're purchased separately or stated separately on a receipt or invoice.

Allocation of business and pleasure expenses

If you have employees who travel in the United States primarily for business but also spend some time on personal activities, you can deduct the full cost of their airfare or other transportation to and from the destination. However, lodging, meal and other qualified business expenses are deductible only for the business portion of the trip.

Typically, a trip is considered primarily for business if the employee spends more time on business activities than on personal activities — for example, if he or she spends five days at business meetings followed by a weekend at the beach. If a trip is primarily for pleasure, travel expenses aren't deductible, although employers may still write off otherwise deductible expenses for business activities during the stay.

Revisit your expense policies

The rules for deducting travel and other business expenses are complex. Instead of deducting actual travel expenses, some businesses simplify the process by providing employees with allowances for lodging, meal and incidental expenses based on federal per-diem rates. If you or your employees have business trips planned soon, review your travel expense policies and consider updating them to maximize your tax benefits and minimize the administrative hassles. ■

How automation can help your labor shortage

The COVID-19 pandemic was another hit to manufacturing's labor shortage. For manufacturers affected by the shortage, investing in automated equipment may seem like a smart alternative to relying on people. Automation can reduce a company's human resource headaches and decrease compensation costs.

Finding labor

In today's tight labor market, good help can be hard to find. According to a study by Deloitte and The Manufacturing Institute (a partner of the National Association of Manufacturers), the manufacturing skills gap in the United States could result in 2.1 million unfilled jobs by 2030. The study also found that digital transformation in the manufacturing industry will redefine work for humans.

Automated equipment can help manufacturers meet production demands, especially in remote areas with limited sources of trained workers. Automating your plant may be easier and less expensive than, say, training existing workers or luring skilled people from urban areas to work for you.

Using robots

Robots, if properly programmed and integrated into the surrounding systems, can perform *certain* tasks faster and with fewer errors and less waste than humans. Automated equipment is well suited for large production runs, as well as repetitive, dangerous and labor-intensive tasks. Examples include welding parts, performing pick-and-place tasks and cleaning up chemical spills. But if you run small batches of custom work, it might make sense to stick with humans.

In addition, automated production lines and the use of robots can help differentiate your business from competitors. For example, press releases and social media posts about your investment in automated equipment could boost your brand's image as an innovator and/or a high-quality producer.

Employees are seldom satisfied doing the same mundane tasks, day after day. By automating repetitive tasks, your workers are free to perform high-tech custom work and program robots for the next run. In addition, assigning dangerous or strenuous work to robots can reduce work-related stress, accidents and health issues among employees. Of course, morale benefits will be tempered if automation results in the elimination of several positions or employees fear their jobs are in jeopardy.

Automation isn't just for your manufacturing floor. Robotic process automation (RPA) can help the administrative side of your business. RPA refers to software tools that automate repetitive, rule-based human tasks. For example, properly designed RPA solutions can compile necessary billing data (from multiple systems, if necessary) and create accurate invoices in a matter of minutes. It can also be used to generate and analyze work-in-progress reports

to ensure that jobs are progressing profitably, and to provide an early warning of cost overruns and other potential problems. Finally, RPA can be used to automate a variety of tasks involved in recruiting, onboarding, payroll, and other labor- and document-intensive HR processes.

Understanding downsides

The biggest downside to automation is the initial cost. So, it's critical to crunch the numbers before making the investment.

Rather than purchase equipment outright, consider financing or leasing the equipment to spread the cash outflows over five to ten years. However, financing costs could increase significantly if interest rates increase or lawmakers make changes to the federal tax deduction for interest expense.

Also consider how much it will cost to train employees to operate, program and repair the equipment, along with incremental insurance, utilities and repair costs. You may even need to revise your production line to avoid unexpected bottlenecks that may occur as automation alters throughput, cycle times and setup times.

Though machines don't complain or call in sick, they do break down and show wear, necessitating a formal maintenance program. If you aren't disciplined enough to follow a maintenance schedule, consider leasing the equipment from a company that will also maintain it.

Additionally, as with any type of technology, it's important to evaluate cyberthreats that automation might bring. Could your robots be hacked or infected with a virus that shuts down your production line?

Embracing the future

Technology is the future for many manufacturing businesses. Contact your CPA to review the costs of buying, implementing and maintaining automated equipment and RPA software. ■

South Dakota v. Wayfair

Economic nexus and manufacturers' sales tax obligations

It's been more than three years since the U.S. Supreme Court's landmark decision in *South Dakota v. Wayfair*. In that case, the Court held that a state may require out-of-state sellers to collect and remit sales tax even if they lack a physical presence in the state. Since then, nearly every state with a sales tax has enacted an "economic nexus" law that extends the reach of its sales tax collection obligations to sellers beyond its borders.

Although sales by manufacturers are often exempt from sales taxes, they can't afford to ignore economic nexus laws in states where they do business. Even if their sales are exempt, these laws may create new compliance obligations and substantially increase administrative burdens with respect to sales taxes.

How do economic nexus laws work?

Generally, economic nexus laws impose sales tax collection obligations on businesses that exceed a certain number or dollar amount of annual sales in the state. Many of these laws are similar to the South Dakota law upheld in *Wayfair*, which

Many states' nexus thresholds are based on both exempt and taxable sales. In this situation, a manufacturer whose sales in a state are primarily exempt can still be required to register in the state as a sales tax vendor, file sales tax returns in the state and maintain documentation of its sales' exempt status.

applies to sellers with more than $100,000 in annual sales or more than 200 separate annual transactions in the state. But there are significant differences from state to state. Annual sales thresholds in some states are as high as $250,000 or even $500,000, and annual transaction thresholds may be lower or higher than 200.

Some states don't apply a number-of-transactions threshold at all, reasoning that it could unfairly require small out-of-state sellers to collect sales taxes. For example, if a state's economic nexus law applies to sellers with more than 200 annual transactions, a company that makes 250 sales annually of an item that sells for $3 would be subject to the law, even though its annual sales in the state are only $750. Other states require sellers to exceed *both* a sales threshold and a number-of-transactions threshold.

What's the impact on manufacturers?

Manufacturers' sales are often exempt from sales tax. That's because the tax is usually limited to retail sales, while manufacturers typically sell goods at wholesale or for use or consumption by other manufacturers. But that doesn't mean that economic nexus laws don't affect manufacturers.

Manufacturers may also be affected by their home states' economic nexus laws. Why? Because if they purchase equipment or materials from out-of-state sellers that are subject to the law, those sellers may now be required to collect sales tax. If these purchases qualify for a manufacturing or resale exemption, the manufacturer will need to furnish the sellers with an exemption certificate to avoid the tax.

> Conduct a sales tax audit to assess the impact of sales tax laws and ensure compliance with all applicable state tax requirements.

Time for a sales tax checkup

The sales tax landscape has changed dramatically following *Wayfair*. Given the explosion of economic nexus laws, consider conducting a sales tax audit to assess the impact of these laws on your company's activities. This can help ensure that you remain in compliance with all applicable state tax requirements. ■

3 ways to prepare for the next supply chain disruption

Before the COVID-19 pandemic, many manufacturers' supply chain management efforts focused on reducing costs and increasing efficiency, in some cases at the expense of flexibility and resiliency. But the pandemic highlighted the vulnerability of global supply chains to disruptions caused not only by public health emergencies, but also natural disasters, political unrest, economic volatility and other risks.

To prepare for future disruptions, manufacturers should reexamine their supply chain approaches and consider the following three strategies:

1. Plan for every part

A plan for every part (PFEP) isn't a new concept, but it's taken on added significance during the pandemic. A PFEP is a robust, end-to-end plan for all the parts that make up your products. Start with a detailed analysis of the demand for each part; how and where they're sourced; how much they cost; and how they're made, packaged, stored and ultimately delivered.

This information allows you to measure the importance of each part to your manufacturing process. Then you can assess the risk associated with potential disruptions of that part's supply chain and develop strategies to mitigate the risk. For example, if a part is particularly critical, you might keep more of it in stock (despite the increased cost) to ensure that you can meet customer expectations during a supply chain disruption. Another approach to consider is vertical integration (that is, bringing production of the part in house). This alternative gives you more control over the supply chain.

2. Diversify your supply chain

Just as investors reduce their risks by diversifying their portfolios, manufacturers can reduce their risks by diversifying their supply chains. Develop a mix of suppliers of different sizes and in different geographical regions to mitigate the risk that the unavailability of one supplier will devastate your business. If a natural disaster or other event forces a supplier to close its doors or temporarily suspend its operations, other suppliers will be available to take up the slack and minimize disruption to your manufacturing process.

3. Strengthen supplier relationships

In every supply chain, it's critical to develop and maintain strong relationships with your suppliers, especially during challenging times. Good communication with your suppliers will help you stay informed of developments that affect the availability of key supplies and take steps quickly to respond to any shortages.

An ounce of prevention

Taking the time to review these three strategies will help your manufacturing business enhance its supply chain resiliency and improve your chances of weathering the next supply chain storm. ■

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