

How to Deduct Travel Expenses

Part I of II – Business Travel

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If you deduct travel expenses on your tax return and happen to receive a 'notice of examination' from the IRS, you can be pretty sure that your travel records will be requested. With new jet service now at Barkley Regional Airport, this seems like a great time for some tips on getting those travel deductions to...fly!

In general, you can deduct travel for several purposes – business, charity, medical, and education. I need a full column to discuss business use, the most frequently-deducted type of travel. Next month, we'll hit the remaining three.

Business travel expenses include meals, lodging, transportation, and other expenses for incidentals. By definition, to be deductible, a business expense must be both "ordinary" and "necessary." An ordinary expense is one that is common and accepted in your field of business. A necessary expense is one that is helpful and appropriate for your business.

Meals

You can deduct meals if:

- You need to stop to sleep (more than a quick nap) to properly perform your duties while traveling for business, or
- The meal is business-related entertainment.

Meals eaten on an overnight business trip that are less than \$75 don't require a receipt. However, if you take a business prospect out to eat, you should save the receipt, even if under \$75, and jot details about the meeting on the back to prove your deduction.

In general, you can deduct 50% of business meals, or the per-diem amount allowed by the IRS, which you can find in IRS Publication 1542. Certain transportation industry workers are allowed to deduct 80% of their meals or higher per-diem amounts, so be sure to use the correct tables.

Sometimes you can deduct 100% of the cost of meals. One of the most overlooked meal deductions is for employee office parties. The cost of providing food and beverages for gatherings primarily for the benefit of rank-and-file employees and their guests can be fully deductible. Meals provided to employees for the employer's convenience, such as meals for employees working late, are also 100% deductible.

Lodging

Generally, to deduct lodging, you must be traveling away from the area of your tax home for longer than an ordinary day's work. The tricky part can be in determining your "tax home" if you travel a lot for business.

- Your tax home is usually your regular place of business or post of duty, regardless of where you maintain your family home.
- If you have more than one regular place of business, your tax home is your main place of business.
- If you do not have a regular or main place of work and there is no place where you regularly live, you are considered an itinerant (a transient) and you cannot claim a travel expense deduction because you are never considered to be traveling away from home.
- If you are on a temporary assignment and have to obtain long-term lodging, you can generally deduct all costs associated with that lodging if your assignment lasts less than one year.

You may choose to deduct per-diem amounts for lodging; see IRS publication 1542.

Transportation

There is a lot to say here, and I can't go over it all, so I'll just throw out a few facts and tips:

- If you drive your car for business, you can opt to either deduct mileage at the standard rate (beginning with the first year you use the vehicle for business) or actual expenses, including gas, insurance, and repairs
- Whatever method you choose, you MUST keep a log of your business miles and total miles driven each year (we keep handy logs in our office to give away – just ask!)
- If you are audited, you WILL be requested to produce a copy of this log, and you must show that you kept track of your travel *contemporaneously* (i.e. – at the same time you traveled).
- The more expensive the vehicle, the more likely you are to get a better deduction with the "actual ex-

pense” method

- Putting a business sign on the side of your car (whether magnetic or painted) does not turn your car into a fully-deductible vehicle.
- If you own a business and use your car for both business and personal travel, it will probably make little difference, deduction-wise, if the business owns the vehicle or you do. Just keep the car in your own name and set up an “accountable” plan through the business – then be sure to reimburse yourself for business use on a regular basis.
- You can never deduct commuting expenses...
- ...but if you work out of your home, you have no commuting expenses and (in general) all business travel is deductible.

Incidentals

Other expenses that you may deduct while on business travel include:

- Dry cleaning and laundry
- Phone and internet usage
- Taxi, bus, parking, tolls
- Any tips related to your business travel
- The IRS offers a \$5/day per-diem amount deduction for incidental expenses but you cannot use this method if you also choose to use the per-diem meals allowance. It's worth noting that some of the expenses I have listed as 'incidentals' are actually classified by the IRS as meals, lodging, or transportation, so it all gets a bit messy. In other words, don't try this without your financial professional!

This can be a tricky topic and I don't intend to offer hope where there should be none. Therefore, please see your tax or financial planning professional for advice specific to your situation. Next month, we'll give you The Rest of the Story on travel deductions.