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## Road rules: Deducting business travel expenses

**Synopsis** - Those who travel for business want to ensure that the expenses they incur while doing so are tax deductible. IRS rules are strict, and improperly substantiated deductions can be costly. This article explains the “away from home” rule, which expenses may qualify for a deduction and how an employer-offered accountable plan generally works.

**Full Article** - If you travel for business, you’ll want to ensure that the expenses you incur while doing so are tax deductible. IRS rules are strict, and improperly substantiated deductions can cost you.

### Away from home rule

Generally, ordinary and necessary expenses of traveling away from home for work are deductible. For the expenses to qualify, you must be away from your tax home — your regular place of business — substantially longer than an ordinary day’s work and need to sleep or rest to meet the work demands while away.

You don’t necessarily have to stay away from home overnight to satisfy the rest requirement. If you travel for business purposes throughout the day but return home that night to sleep, you may still be considered “away from home” for tax purposes. In this case, expenses you incur for such trips are still deductible.

Also, the trip must be primarily for business purposes. If your trip involves both business and personal activities, a portion of the travel expenses may be nondeductible personal expenses.

### Deductible travel expenses

Airfares, taxis, rental cars, lodging, meals (with exceptions), tips and business phone calls are generally tax deductible. But you can’t write off “lavish or extravagant” travel expenses, so be prepared to prove that your patronage of a high-end restaurant or five-star hotel was reasonable under the circumstances.

Generally, only 50% of business-related meal and entertainment expenses are deductible. If your employer reimburses you under an accountable plan (see below), the 50% limit applies to your employer rather than you.

You must substantiate deductions for lodging — and for other travel expenses greater than \$75 — with adequate records. These include credit card receipts, canceled checks or bills. Records should indicate the amount, date, place, essential character of the expense and business purpose.

### Be accountable

If your employer reimburses your travel expenses, an accountable plan enables the company to deduct the reimbursements, but the reimbursements aren’t included in your income as salary and aren’t subject to FICA

and other payroll tax obligations. Although you may still be able to deduct some or all business travel expenses without an accountable plan, such deductions are available only if you itemize deductions on Schedule A and your expenses plus other miscellaneous deductions exceed 2% of your adjusted gross income.

For reimbursed expenses to qualify under an accountable plan, you must have paid or incurred them while on company business and reported the expenses to your employer within a reasonable time (usually within 60 days). You also must return any excess reimbursements — usually within 120 days after they were paid or incurred.

Generally, to be reimbursable on a tax-free basis, your travel must meet the “away from home” rule discussed earlier. However, your employer can reimburse local lodging expenses if the lodging is temporary and necessary for you to participate in or be available for a bona fide business meeting or function. The expenses involved must be otherwise deductible by you as a business expense (or be expenses that would otherwise be deductible if you paid them).

### **Exceptions happen**

As with most IRS rules, there are exceptions to which travel expenses you can deduct. If you're unsure about some expenses, give us a call.

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