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# SPECIAL REPORT

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## TAX DEDUCTIBLE TRAVEL EXPENSES FOR BUSINESS OWNERS

**The purpose of this letter is to inform the business owner of the current tax rules for deducting domestic travel expenses.**

I would like to mention just one word of caution before I start though. Tax laws are constantly changing and all fact situations can not be anticipated. If you have special circumstances that involve significant amounts, you should do some detailed investigation to see how the rules apply to your special situation.

**You can deduct travel expenses related to your business activities. However, the Internal Revenue Service can summarily disallow travel expenses if documentation rules are not followed. So it is important to understand these rules and to keep the required documentation to get the tax deductions you are entitled to.** Also, if you understand the rules, you can combine some personal/fun activities with a business trip and most of the cost of the trip will be tax deductible.

This is general information that addresses rules for the business owner. Most of the rules discussed here also pertain to the employee traveling but employees have less stringent documentation requirements.

**Deductible travel expense** (including transportation expense while in travel status) **must be:**

- 1. reasonable and necessary,**
- 2. incurred while away from home, and**
- 3. in the pursuit of business.**

Deductible travel expenses include— transportation (travel fares, vehicle expenses and so on); lodging; a portion of the cost of meals; incidental expenses. In order to keep you from getting lost in a maze of information, I'm going to break down the information into the following topics:

1. Transportation expenses to/from a destination
2. Transportation expenses & business day expenses
3. Travel with your spouse and others
4. What is away from home
5. Documentation required

### 1. TRANSPORTATION EXPENSES TO/FROM A DESTINATION

**Only business travel is deductible.** If the trip is for other than business purposes, the travel expenses are non deductible personal expenses and the meals and lodging are non deductible living expenses.

**If you travel to a destination and engage in both business and personal activities, traveling expenses to and from such destination are deductible only if the trip is primarily business.** If the trip is primarily personal in nature, the traveling expenses to and from the destination are not deductible even though you engage in business activities while at the destination.

Whether a trip is primarily business or is primarily personal depends on the facts and circumstances in each case. **The amount of time spent on personal activities compared to the amount of time spent on business activities is a very important factor in determining whether the trip is primarily personal.**

**SPECIAL PLANNING NOTE**—Make sure that anytime you combine a business trip with personal/family days, that your primary purpose for the trip is business, and that you spend more days on business than personal pleasure.

**THE 51%/49% TRANSPORTATION RULE:** When you travel within the 50 United States (including Washington, D.C.) and spend more days (51% or more of your days on business than you spend on personal), you may deduct 100% of the cost of your transportation. However, if the purpose of the trip is not primarily for business (less than 51% of your days on business), you lose all of your transportation deduction for that trip.

## **2. TRANSPORTATION EXPENSES & BUSINESS DAY EXPENSES**

**Expenses “on-the-road” are divided into two categories**—transportation expenses and business day expenses. 1) Transportation expenses are airfare, vehicle expenses, etc. to transport your self to an out-of-town business destination; 2) Business day expenses are expenses at the destination such as eating and hotel rooms. You may deduct business expenses such food and lodging even when your trip does not include enough business days to make it a business trip.

### **SPECIAL PROBLEMS IN FIGURING BUSINESS DAYS**

**WEEKEND, HOLIDAYS, AND STANDBY DAYS:** These days count as business days when they fall in-between business days during a business trip where it would not be practical to return home from your business destination over the weekend because of time required or expense involved.

**SPECIAL CONSIDERATION FOR SATURDAY NIGHT TRAVEL:** Because airlines often offer large discounts if your flight days span Saturday night, if you can save money (expenses) by staying over Saturday night you may count the stay-over days as business days.

**TRAVEL DAYS:** Travel days count as business days, provided your point-to-point transit time plus business activity time for the day exceeds four hours.

**SPECIAL PLANNING NOTE**—If your trip is primarily business and you conduct business on Friday and the next Monday, the weekend in between will automatically count as business days as long as it was not practical for you to return home.

### **3. TRAVEL WITH YOUR SPOUSE AND OTHERS**

No deduction for travel of a spouse, dependent, or other individual accompanying you on business travel unless:

1. the spouse, dependent, or other companion is your employee;
2. the travel of the spouse, dependent, or other companion is for a bona fide business purpose.

**The law makes it clear that your spouse not only must be an employee of your business, but also must travel for a bona fide business purpose.**

**SPECIAL PLANNING NOTE**—If your spouse and/or others accompany you and their expenses are not deductible, make sure you reduce your deduction by the actual cost of their travel rather than let the IRS do so under audit. The IRS will probably make a ratable allocation to determine the non-deductible portion whereas the actual additional cost is probably much less!

### **4. WHAT IS AWAY FROM HOME**

**The phrase "away from home" means that you must be away from your principal place of business (your tax home) overnight, or long enough to require sleep or rest.**

The IRS only permits you to deduct expenses while away from your principal place of business, known as your tax home. **Identifying your tax home is critical. Generally your tax home is your principal place of business. You may deduct travel expenses while temporarily away from that home in the pursuit of business.**

Generally you will not be treated as being away from home if an assignment lasts more than one year. However, if you are employed for an indefinite or uncertain time at a distant work site, you cannot deduct living expenses at the distant job site even if it is inconvenient to move to the new location. In order to justify a deduction for living expenses while away from home at a distant job site, you must establish that:

1. the new job is temporary;
2. you maintain a residence in the vicinity of your principal business;
3. you incur additional living expenses while away from home; and
4. the travel is for business rather than personal reasons.

**The IRS has ruled that a taxpayer without a principal place of business has a tax home at his personal residence if it is a "regular place of abode in a real and substantial sense." This ruling is important for traveling salesmen who often have no permanent place of business.**

## 5. DOCUMENTATION REQUIRED

**To prove a business travel expenses you must have adequate records**—you must maintain a diary or account book in which each expense item is recorded at or near the time of the expenditure. You must also maintain documentary evidence, such as paid bills or receipts, for lodging expenses away from home and any other items for \$75 or more. Certain simplified methods of record keeping are permitted such as using a standard daily allowance for meals, incidentals and/or lodging. The Internal Revenue Service issues tables which provide allowable daily amounts according to the location. For example the allowable daily amount for lodging, meals and incidentals in Redwood City and San Mateo is currently \$149. These amounts vary by location and change frequently. If you need these any of these amounts, please contact us.

The information that should appear in the diary or account book varies depending on the nature of the expense. It is not necessary to include information in a diary which is on a receipt so long as the diary and receipt complement each other in an orderly manner. You must be able to establish all of the following with respect to each trip away from home:

1. each separate amount for travel, lodging, and meals (although incidental items can be totaled in reasonable categories such as meals and taxi fares);
2. the dates the you left and returned home for each trip, and the number of days spent on business activities;
3. the travel destination, described by city name or other designation, and
4. the business purpose for the travel or nature of the business benefit gained or expected as result of the trip unless the business purpose is obvious from the circumstances, (e.g., a salesman's regular sales calls).

**SPECIAL RULE FOR MEALS AND ENTERTAINMENT EXPENSE:** Also, you must keep records to establish all of the following with respect to each meal and entertainment item:

1. **each separate amount for meals and entertainment** (although incidental items can be totaled in reasonable categories such as taxi fares or telephone calls);
2. **the date** of the meal or entertainment;
3. **the place** of the meal, or the entertainment destination, described by name, address, and designation of type of entertainment, such as dinner or theater, if not apparent from the designation of the place;
4. **the business purpose** for the meal or entertainment or the nature of the business benefit gained or expected as a result of the meal or entertainment, unless the business purpose is obvious from the circumstances, and the nature of any business discussion or activity; and
5. **the business relationship to the you of the person at the meal or the person entertained**, including their name, title, occupation or other designation sufficient to establish the business relationship to the you.

**If you keep a copy of the receipt or charge slip from the restaurant, you will have most of this information. Just make a notation of the names of the people and their business relationship as well as the business purpose of the meeting.**

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