

Tax breaks are available for travelers who mix a bit of pleasure with their business travel

Deductions for trip undertaken primarily for business. A taxpayer who mixes a bit of pleasure with business while away from home nonetheless may deduct all of the round-trip transportation costs as long as the trip was undertaken primarily for business reasons. (Reg. § 1.162-2(b)(1)) The cost of lodging plus 50% of meals while on business status is deductible. Additionally, if the traveler is an employee reimbursed for all expenses under an accountable plan that requires a timely accounting of the time, place, and business purpose of the travel, plus receipts, the reimbursement is tax-free to the traveler (but the personal portion of the trip yields no tax benefit to the traveler).

RIA observation: In effect, the 100% deduction for the round-trip travel costs works as a kind of tax subsidy for a personal vacation, or as a partially tax-free perk.

RIA illustration 1: Ted, a self-employed information technology specialist, flies from the East Coast to Los Angeles for a 5-day business trip. He takes in three days of golf after the business part of the trip is over.

Result: Because Ted can deduct the entire air fare, part of his mini-vacation is, in effect, subsidized by the tax break.

RIA illustration 2: The facts are the same as in *illustration (1)*, except that Ted is employed by a corporation that reimburses him for the business portion of the trip after he submits detailed records and receipts. He pays for the personal portion of the trip (meals and lodging during the three golfing days).

Result: Under the accountable plan rules, the reimbursement for the round-trip airfare (as well as for meals and lodging while on business status) is tax-free to Ted. (Reg. § 1.62-2(c)(2)(i), Reg. § 1.62-2(d)(1)) That's true even though he took a mini-vacation after his business trip ended. The corporation deducts the travel costs it pays (but only 50% of the cost of meals is deductible).

RIA illustration 3: The facts are the same as in *illustration (2)*, except that the corporation reimburses Ted for the cost of the entire trip, including the 3-day mini-vacation.

Result: Ted's cost for the personal portion of the trip consists of the tax he pays on the personal portion's value (hotel, meals, etc.), which must be treated as compensation income. The corporation's deduction consists of 50% of the meal costs while Ted is on business travel status, 100% of the round-trip air fare, 100% of the lodging costs while he is on travel status, and (assuming that his entire compensation package is "reasonable") 100% of the cost of the mini-vacation since that was treated as compensation paid to Ted.

When is a trip treated as undertaken primarily for business? There is no hard-and-fast rule. It depends on the facts and circumstances of each case. The regs do say, however, that the way travelers split their time between business and personal pursuits is "an important factor." (Reg. § 1.162-2(b)(2))

RIA illustration 4: Fran works in Atlanta and travels to New Orleans on business. On her way home, she stops in Mobile to visit her parents. During the nine days she is away from home, she spends \$1,070 for travel, meals, lodging, and other travel expenses. Had she not stopped in Mobile, Fran would have been away from home for only six days and her trip would have cost only \$920.

Result: Fran can deduct \$920 for her trip, including the round-trip transportation to and from New Orleans. The 50% deduction limit applies to her meals while on business status. (IRS Pub. 463 (2006), p. 6)

RIA observation: As is evident from *illustration (4)*, the personal part of a trip need not occur at the business destination. It can take place on the way home from the business destination (or, for that matter, en route to the business destination).

RIA caution: Taxpayers who make a stop for personal reasons en route to a business location or on the way home should be sure to keep records of what their round-trip transportation costs would have been without the personal stop.

Saturday night stayovers. Although an employee's out-of-town business chores conclude on Friday, he may be asked to extend his business trip to take advantage of a low-priced fare requiring a Saturday night stayover, where the savings in airfare are higher than the costs of the weekend meals and lodging. The employee doesn't pay tax on the reimbursement for his Saturday meal and lodging expenses. (PLR 9237014) In this case, IRS said that under a "common sense test," payments to the employee for the Saturday stay were deductible if a "hardheaded business person would have incurred such expenses under like circumstances."

When a personal day may not be a personal day. An away-from-home business trip may straddle a weekend. For example, one may have to attend business meetings on Thursday, Friday, and Monday. He is too far away to travel home and then come back (and besides, the trip back and forth would cost more than staying put), so he spends the weekend relaxing at the out-of-town location. Because he must remain at the location for business reasons, the weekend days (Saturday and Sunday) should under the "common sense test" be treated as business days the

expenses for which are deductible (50% of meal costs, 100% for other expenses) or excludible if the traveler is reimbursed under an accountable plan.

Tax break for weekend travel home. A business traveler on an extended out-of-town assignment may decide to fly home for a weekend to be with the family. The cost of the weekend trip home is deductible up to the amount the traveler would have spent on meals and lodging at the out-of-town location. (IRS Pub. 463 (2006), p. 4) Note, however, that this rule applies only if the traveler checks out of the out-of-town hotel before leaving for the weekend trip home, and then re-registers. If the traveler retains the hotel room, the deduction for the weekend trip home (i.e., the air fare) is limited to what the traveler would have spent on meals during the weekend at the out-of-town location. (IRS Pub. 463 (2006), p. 4)

Tax breaks when spouse comes along. The expenses of a spouse or other companion accompanying a traveler aren't deductible unless (1) the spouse or other companion is an employee of the taxpayer and travels for a bona fide business purpose, and (2) the expenses would otherwise be deductible by the spouse or other companion. (Code Sec. 274(m)(3)) Nevertheless, even if the spouse's or other companion's travel expenses aren't deductible, a tax benefit may still be salvaged from traveling together. That's because the business traveler's deduction isn't based on 50% of the trip expenses. The deduction is based on what it would have cost the taxpayer to travel alone. (Rev Rul 56-168, 1956-1 CB 93) This rule can be a money saver on accommodations. For example, where the cost of a hotel room is \$200 for one occupant and \$149 for two, a taxpayer on business status may deduct \$149 per night, not \$100, when he gets a room for two. (IRS Pub. 463 (2006), p. 4)

Similarly, where the taxpayer travels out of town on business via rental car, and his spouse accompanies him for nonbusiness purposes, the entire cost of the rental is deductible, because the cost would have been the same for the taxpayer even if his spouse did not join him on the trip. (Pohl, Kenneth, (1990) TC Memo 1990-298)

RIA observation: Checkpoint subscribers can access over 500 pre-written Client Letters either linked from RIA analysis or available in the "Practice Aids" area at the following Table of Contents location: Federal Library/Federal Editorial Materials. For specific Client Letters related to business travel see: ¶ 2130 (business travel away from home within the U.S.) and ¶ 2133 (deducting the costs of a spouse on a business trip).

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