

ing expense) is not deductible unless the taxpayer is away from home. Notice 2007-47 states that the IRS intends to amend the regulation to permit a deduction under the conditions described above and that it will not raise or pursue this issue for returns filed before the regulations are amended.

### Travel Expenses—Business vs. Personal

**Entirely for business.** All travel expenses are deductible.

**Primarily for business.** Whether a trip is primarily business or personal depends on the facts and circumstances. The amount of time spent on personal activities compared to the amount of time spent on activities directly relating to business is an important factor in determining whether the trip is primarily personal. (Reg. §1.162-2)

- **Travelling by air.** Deduct taxpayers's airfare.
- **Traveling by car.** All transportation costs are deductible because it costs no more to drive with four in a car than with one.
- **Hotel room.** Deduct only the single rate.
- **Meals.** Deduct the taxpayer's meals.
- **Other expenses.** Deduct any business-related expenses at the business destination. Nonbusiness side trips are nondeductible.



**Note:** For the additional costs of individuals travelling with the taxpayer, see *Travel Expenses for Another Individual* below.

**Primarily for personal reasons.** The entire cost of the trip is nondeductible. However, any business-related expenses incurred at the destination are deductible.

### Travel Expenses for Another Individual

Travel expenses for an individual accompanying a taxpayer are only deductible if certain rules are met.

**A spouse, dependent or other individual:**

- 1) Who is an employee of the taxpayer,
- 2) Who has a bona fide business purpose in travelling with the taxpayer and
- 3) Whose expenses are otherwise deductible.

**A business associate** (for example, employee, customer, supplier, professional adviser) who meets rules 2 and 3 above.

### Saturday Night Business Stayovers

If a business trip is extended an extra day to take advantage of a reduced airfare, the additional expenses for meals and lodging are deductible per Letter Ruling 9237014. The IRS reasons that the stayover has a business purpose—to reduce travel costs.

### Luxury Water Travel

The deduction allowed for business travel by ocean liner, cruise ship or other form of luxury water transportation is limited to twice the highest federal per diem rate for U.S. travel multiplied by the number of travel days. The rates are found in IRS Pub. 463.

If the expenses include business meal and entertainment costs that are separately stated, only 50% of that amount is deductible. If the meal and entertainment expenses are not separately stated, 100% of the cost is deductible (subject to the daily limitation).

**Note:** The per diem limitation only applies to transportation, not to the \$2,000 limitation for conventions or seminars conducted on cruise ships. See *Cruise Ship Conventions* in the next column.

### Conventions

**Conventions in North America.** Travel expenses are deductible if attendance benefits the taxpayer's trade or business. The cost of conventions for investment, political, social or other nonbusiness-related purposes are nondeductible.

**Conventions outside North America.** Travel expenses are deductible only if (1) the meeting is directly related to the taxpayer's trade or business, and (2) it is as reasonable to hold the meeting outside the North American area as in it. Reasonableness is based on the purpose of the meeting, activities taking place at the meeting, activities of sponsors, homes of sponsors and other relevant factors.

### Cruise Ship Conventions

A deduction of up to \$2,000, per person, per year is allowed for expenses incurred in connection with a business convention or seminar held on a cruise ship as long as (1) it is directly related to the taxpayer's trade or business, (2) the ship is a U.S. flagship and (3) all ports of call are located within the United States or its possessions. [IRC §274(h)]

**To deduct, taxpayers must attach two written statements to their tax return:**

- **Statement #1.** Signed by the taxpayer. Must specify the number of hours each day that were devoted to business activities, total days of the trip and program of business activities.
- **Statement #2.** Signed by an officer of the sponsoring organization. Must include a detailed schedule of each day of the meeting and the number of hours taxpayer attended. [IRC §162(h)]

### Travel Outside the United States

All expenses for travel outside the United States are deductible if the trip is entirely devoted to business activities.

If the reason for the trip is primarily for non-business reasons, such as a vacation, none of the travel costs are deductible.

If the primary purpose of the trip is for business, but some time is spent on personal activities, travel costs generally must be prorated by dividing the number of business days outside the United States by the total number of travel days outside the United States. See *Considered entirely for business* below for exceptions.

**Counting business days.** Days spent traveling to and from a business destination are considered business days. Extra travel days spent on non-business activities are not counted as business days. If there are extra travel days because of a side trip, count as business days the days it would have taken to travel to the business destination taking a reasonably direct route. Weekends and holidays are considered business days if they fall between business days.

**Considered entirely for business.** Even if time is spent on non-business activities, the trip is considered entirely for business if one of the following conditions is met.

- 1) The taxpayer does not have substantial control over arranging the trip. The taxpayer is not considered to have substantial control if they are an employee who was reimbursed or paid a travel expense allowance, is not related to the employer, and is not a managing executive. A self-employed person generally has substantial control over the arrangement of a trip.
  - 2) The taxpayer was outside the United States on a business trip for a week or less. Do not count the day of departure from the United States, but count the day of return.
  - 3) Less than 25% of the total time spent during the trip was spent on non-business activities. For this purpose, count both the days of departure and return.
  - 4) The taxpayer can establish that a vacation was not a major consideration for the trip.
- See Pub. 463 for examples.



**SUBSTANTIATION REQUIREMENTS**  
See also: IRS Pub. 463

Section 274(d) sets forth specific requirements for substantiating deductions for travel, meals and entertainment. Taxpayers are required to maintain an account book, diary, log, trip sheet or similar records, as well as documentary evidence (for example, receipts, cancelled checks) to substantiate the amount, time, place and business purpose of the expenditures. [Reg. §1.274-5T(c)]

**Observation:** The importance of substantiation cannot be overemphasized, especially in the area of travel, meals and entertainment. The taxpayer should completely document these expenses as they occur to secure the deductions. The so-called Cohan rule that allows taxpayers sometimes to estimate the amount of certain business expenses is not available for travel, meals and entertainment expenses (see *Inadequate Records—Cohan Rule* on Page 16-9).

Document	Requirements
Hotel Receipt	<ul style="list-style-type: none"> <li>• Hotel's name and location.</li> <li>• Dates taxpayer stayed there.</li> <li>• Separate amounts for charges such as lodging, meals and telephone calls.</li> <li>• A credit card statement alone is not sufficient evidence for a lodging expense.</li> </ul>
Restaurant Receipt	<ul style="list-style-type: none"> <li>• Restaurant's name and location.</li> <li>• Number of people served.</li> <li>• The date and amount of the expense.</li> <li>• If a charge is made for items other than food and beverages, the receipt must show that this is the case.</li> </ul>
"Ticketless" Airfare	<ul style="list-style-type: none"> <li>• Copy of an email or fax of the airline itinerary/receipt. (Ltr. Rul. 9805007)</li> </ul>
Cancelled Check	<ul style="list-style-type: none"> <li>• A canceled check along with a bill from the payee or other evidence that there was a business purpose.</li> <li>• A canceled check by itself does not prove a business expense.</li> </ul>

**Exceptions**

**Expenses below \$75.** For travel and entertainment expenses (other than lodging), documentary evidence (receipts, etc.) is generally not required for expenses below \$75. However, records must be kept showing the time, place, business purposes and amount of each separate expense. [Reg. §1.274-5(c)(2)]

**Meals and incidental expenses incurred while away from home.** The amount of meals and incidental expenses may be substantiated using a per diem rate instead of the actual cost. See *Per Diem Rates* on Page 9-7. [Reg. §1.274-5(j)]

**Lodging expense.** Employers may substantiate lodging using a per diem rate. See *Per Diem Rates* on Page 9-7.

**Transportation expenses.** Documentary evidence is not needed for expense for which a receipt is not readily available (for example, a bus fare).

**Electronic receipts.** The IRS approved an employer's use of an electronic system for substantiating travel and entertainment expenses and complying with the accountable reimbursement plan requirements. (Rev. Rul. 2003-106)

**Federal employees** must submit an account book or log showing the time, place, business purpose and amount of each expense. The employee is required to keep the records for four years and produce the documents if requested by the employer or the IRS. (Rev. Proc. 97-45)

**Reimbursements**

When an employer reimburses an employee for travel, meals or entertainment expenses, the reimbursement is excluded from the employee's income if the reimbursement arrangement is an accountable plan. Similar rules apply to independent contractors [Reg. §1.274-5T(h)(2)]. Employees cannot deduct meals and entertainment expenses if the employer reimburses the expenses under an accountable plan and does not treat the reimbursement as wages. See *Accountable Plan/Nonaccountable Plan* on Page 9-7.



Elements to Be Proved	Travel Expenses	Entertainment Expenses	Gift Expenses	Transportation Expenses
<b>Amount</b>	Amount of each separate expense for travel, lodging and meals. Incidental expenses may be totaled in reasonable categories (taxis, traveler's daily meals, etc.). <sup>1</sup>	Amount of each separate expense. Incidental expenses such as taxis, telephones, etc., may be totaled on a daily basis.	Cost of gift.	1) Amount of each separate expense, including cost of car. <sup>2</sup> 2) Mileage for each business use of car and 3) Total miles for tax year.
<b>Time</b>	Date left and returned for each trip and number of days for business.	Date of entertainment or use of a facility for entertainment. For entertainment directly before or after a business discussion, date and duration of discussion.	Date of gift.	Date of the expense or use.
<b>Place</b>	Name of city or other destination.	Name and address or location of place of entertainment or use of a facility for entertainment. Type of entertainment if not otherwise apparent. Place where business discussion was held if entertainment is directly before or after business discussion.	N/A	Name of city or other destination, if applicable.
<b>Description</b>	N/A	N/A	Description of gift.	N/A
<b>Business Purpose</b>	Business reason for travel or business benefit gained or expected to be gained.	Business reason or the business benefit gained or expected to be gained. Nature of business discussion or activity.	Business reason for giving gift or business benefit gained or expected to be gained.	Business reason for the expense or use of the car.
<b>Business Relationship</b>	N/A	Occupations, names, titles and/or other information about persons entertained that shows business relationship to taxpayer. If all people entertained did not take part in business discussion, identify who did. Taxpayer must prove that he/she or employee was present if entertainment was a business meal.	Occupation, name and/or other information about recipient that shows his or her business relationship to taxpayer.	N/A

<sup>1</sup> Actual amount for meals, lodging and incidental expenses not required if taxpayer uses a per diem method.  
<sup>2</sup> Actual amounts not required if standard mileage rate used.