

Bundling Business, Personal Travel Can Reap Tax Advantages

by Neil Becourtney, CPA

Most professionals will advocate a healthy separation of your professional and personal lives, but as the holiday and year-end vacation season approaches, business travelers who manage to squeeze some vacation time in at the end of a business trip may be rewarded with certain very attractive tax breaks.

Among the opportunities to consider:

Combine Domestic Business, Pleasure Travel and Deduct Certain Expenses

Certain “pure” transportation expenses are allowable deductions. This includes (but is not limited to) the costs of getting to and from the business meeting location, travel to and from your departure airport, the airfare itself, baggage fees and tips, and cabs to and from the destination airport. Domestic transportation costs are 100 percent deductible, as long as the primary reason for the trip is business rather than pleasure.

The Internal Revenue Service (“IRS”) doesn’t specify how to determine if the primary reason for domestic travel is business, but the rules covering foreign travel may be used as a guideline. “Travel days” count as business days, as do weekends and holidays if they fall between days devoted to business and



it would be impractical to return home. “Stand-by days,” when your physical presence is required, also count as business days, even if you do not work on those days. Any other day principally devoted to business activities during normal business hours is also counted as a business day, as are days when you intended to work but couldn’t due to reasons beyond your control (i.e., a local power failure).

For domestic trips, you may be able to claim business was the primary reason for a sojourn when the business days exceed the personal days. Be sure to accumulate proof of this. For example,

if your trip is made to attend client meetings, log that meeting in your planner and copy the pages for your tax file.

Once at the destination, your out-of-pocket expenses for business days are fully deductible. Out-of-pocket expenses include lodging, hotel tips, meals (subject to the 50 percent disallowance rule), seminar and convention fees, and cab fare. Expenses for personal days are nondeductible (except in the “Saturday Night Stayover” situation explained later in this article).

Example: You are a sole proprietor and arrange a Wednesday morning client meeting in San Francisco. You fly out Sunday evening and spend Monday sight-seeing. Tuesday is spent preparing for the meeting, and Wednesday is devoted to the meeting, a client lunch, and return travel. In this example, Sunday, Tuesday, and Wednesday count as business days. Under current guidelines you may deduct your airline tickets, plus your lodging for Sunday and Tuesday nights, 50 percent of your meals for Sunday, Tuesday, and Wednesday, your other out-of-pocket expenses for those days, and 50 percent of the cost of lunch with your client.

Maximizing the Tax Benefits of a Saturday Night Stayover

A great way to maximize deductions for the personal portion of a trip is with a Saturday night stayover that reduces the overall cost of the trip. If you can show staying the extra day or two costs less (or no more) than coming back home immediately after the business meeting is over, the IRS allows you to deduct your additional meal and lodging expenses (subject to the 50 percent disallowance rule for meals) for the extra day(s).

Example: You have a business meeting in New York on Monday morning. You and your spouse fly into town Saturday morning and spend the weekend sightseeing. Your round trip airfare is only \$400 versus \$1,200 if you came in Sunday night and left Monday. In this situation, Saturday is a personal day. As long as your meal and lodging expenses for Saturday are no more than \$800, you can write off your whole trip (subject to the 50 percent disallowance rule for meals). Expenses related to your spouse's travel are not, of course, deductible.

Deducting Foreign Travel Costs

When you travel outside the U.S. primarily for business reasons, you must allocate all your travel expenses, including transportation, between business and personal. You can, however, deduct 100 percent of your *transportation* expenses if the trip is primarily for business and you meet either of the following rules:

- **The One-week Rule.** You'll meet this rule if your business trip is one week or less, not counting the day you leave but counting the day you return. In this case, you can deduct 100 percent of your transportation costs and 100 percent of your other out-of-pocket expenses for business days (subject to the 50 percent disallowance rule for meals). You cannot deduct out-of-pocket costs incurred on vacation days. Week-ends and holidays falling between business days count as business days, as will an intervening weekday between two business meeting days (e.g., a "pleasure" day on Tuesday sandwiched between "business" days Monday and Wednesday). "Stand-by days," when your physical presence is required for business, also count, even if you spend most of your time on personal pursuits during those days. Finally, business days include the day of your return trip plus days you intended to work but couldn't due to reasons beyond your control.
- **The 25 Percent Rule.** You may deduct 100 percent of your transportation expenses for trips lasting over a week, as long as you spend less than 25 percent of your days on vacation. For this purpose, count the day of departure and day of return as business days, as long as you are traveling to or from the business destination.

Even if you don't qualify for either of the above two exceptions, you may

still be able to deduct 100 percent of your transportation costs if you're traveling on behalf of your employer under a reimbursement or travel allowance arrangement and you're not a managing executive of the company or related to your employer. Finally, 100 percent of your transportation costs to foreign destinations are deductible if you can prove a personal vacation was not a consideration in choosing to make the trip.

If 100 percent of your transportation expenses aren't deductible under the above rules, the *business percentage* of your transportation costs may still be deductible. To calculate the business percentage, divide the days spent principally on business activities by the total number of days outside the country, counting departure and return days. The travel days count as business days, just as the other types of days are considered business days for purposes of the one-week rule and 25 percent rule. You can also deduct the out-of-pocket expenses allocable to your business days (subject to the 50 percent disallowance rule for meals).

Example: On Thursday, you fly to Paris for client meetings on Friday and Monday. You vacation the following Tuesday through Friday and return home Saturday. The two travel days, the two meeting days, and the weekend days in between count as business days. However, the four vacation days amount to 40 percent of your time, so you fail the 25 percent test. Therefore, you must allocate your airfare between business and personal. You can deduct 60 percent of your airfare, plus your out-of-pocket expenses for the six business days.

Travel to Attend Foreign Conventions

If the reason for a trip outside North America—defined for this purpose as including, but not limited to, the

United States, Mexico, Canada, and U.S. and British territories—is to attend a business convention directly related to your trade or business, you may qualify for deductions. However, you must follow all of the foreign travel rules discussed herein plus show it was just as reasonable for the meeting to be held on foreign soil as in North America and that the time spent in business meetings or activities was substantial when compared to that spent sight-seeing and on other personal activities. Barring that, you can only deduct the registration fees and other costs directly related to business while on your trip. Regardless of the location, you cannot deduct travel costs to attend investment or financial planning conventions and seminars.

Conventions on Cruise Ships

Deductions related to conventions that are held aboard cruise ships and are

directly applicable to your trade or business are limited to \$2,000 per individual per calendar year. In addition, the ship must be a U.S.-registered vessel, and all of its ports of call must be in the U.S. or its possessions. Finally, the following information must be attached to your return in the year the deduction is claimed:

1. A signed statement showing the total days of the trip (excluding travel to and from the ship), the number of hours each day spent attending scheduled business activities, and the program of the convention's scheduled business activities.
2. A statement signed by an officer of the sponsoring organization that includes a schedule of each day's business activities and the number of hours you attended those activities.

Conclusion

The rules regarding business/personal travel combination deductions are complex and include numerous exceptions, all of which are worth considering when tagging personal travel onto already-planned business travel.

For more information about this or other tax planning opportunities that may be available to you before the current tax year ends, please contact Neil Becourtney, CPA, or your J.H. Cohn engagement partner at 877-704-3500. ■



Neil Becourtney, CPA, is a tax partner at J.H. Cohn. He may be reached at nbecourtney@jhcohn.com or 973-364-6671.

CALIFORNIA

Los Angeles

11755 Wilshire Boulevard
17th Floor
Los Angeles, CA 90025
310-477-3722

San Diego

9255 Towne Centre Drive
Suite 250
San Diego, CA 92121-3060
858-535-2000

Warner Center

21700 Oxnard Street
7th Floor
Woodland Hills, CA 91367
818-205-2600

CAYMAN ISLANDS

P.O. Box 1748 GT
27 Hospital Road
George Town, Grand Cayman
877-704-3500 x7839

CONNECTICUT

Farmington

76 Batterson Park Road
Farmington, CT 06032
860-678-6000

Glastonbury

180 Glastonbury Blvd.
Glastonbury, CT 06033
860-633-3000

New London

125 Eugene O'Neill Drive
Suite 120
New London, CT 06320
860-442-4373

Stamford

1177 Summer Street
Stamford, CT 06905
203-399-1900

MASSACHUSETTS

Springfield

One Monarch Place
Suite 2020
Springfield, MA 01144
413-233-2300

NEW JERSEY

Roseland

4 Becker Farm Road
Roseland, NJ 07068
973-228-3500

Eatontown

27 Christopher Way
Eatontown, NJ 07724
732-578-0700

Metro Park

333 Thornall Street
Edison, NJ 08837
732-549-0700

Princeton

103 Carnegie Center, Suite 311
Princeton, NJ 08540
609-896-1221

NEW YORK

Manhattan

1212 Avenue of the Americas
New York, NY 10036
212-297-0400

Long Island

100 Jericho Quadrangle
Suite 223
Jericho, NY 11753
516-482-4200

White Plains

1311 Mamaroneck Avenue
White Plains, NY 10605
914-684-2700



877-704-3500
www.jhcohn.com

Cohnnection is published by J.H. Cohn LLP for the general information of its clients, friends, and business associates and should not be acted upon without prior professional consultation.

Circular 230: In compliance with U.S. Treasury Regulations, the information included herein (or in any attachment) is not intended or written to be used, and it cannot be used by any taxpayer for the purpose of i) avoiding penalties the IRS and others may impose on the taxpayer or ii) promoting, marketing or recommending to another party any tax related matters.

Copyright © 2011 J.H. Cohn LLP All Rights Reserved