

Deducting Business Travel Expenses (06/23/2023)

Federal Tax Updates

Client Update: Deducting Business Travel Expenses

Like a lot of tax rules, the rules regarding **business travel expense deductions** can be confusing. This Client Update discusses some things clients should know about deducting these expenses.

When are business travel expenses deductible? Business travel expenses can be deducted when an individual must travel away from their tax home or main place of work for business reasons. An individual is traveling away from their tax home if they are away for more than an ordinary workday and they need to sleep to meet the demands of their work while away.

What is a tax home? Generally, an individual's tax home is their regular place of business or post of duty - not their personal residence. The term "tax home" can include the entire city or general area where the individual's work or business is located.

If the individual has more than one regular place of business, their tax home is their main place of business or work. An individual's main place of business or work is determined by:

- The total time the employee ordinarily spends in each place,
- The level of business activity in each place, and
- How much money the employee earns at each place.

Note. An individual can't deduct the cost of traveling between their main place of business or work and their residence. However, they can deduct the cost of traveling between business locations.

Temporary work assignments. An individual may be given a work assignment or job away from their main place of work. If that assignment is temporary, the individual's tax home doesn't change, and the individual is away from home for the entire period of the assignment. Generally, a temporary assignment in a single location is one that is realistically expected to last (and does in fact last) for one year or less.

Note. An employer can deduct an employee's travel expenses if the employer paid or incurred those expenses during an employee's temporary work assignment *and* the employee's work assignment doesn't last for more than one year.

Indefinite work assignment. If an employee is given an indefinite work assignment at a different location then the worker's tax home changes to the new work location. In this situation, the employer can't deduct the employee's expenses as business travel expenses while they are working at the new location because the employee isn't at traveling away from his tax home. A work assignment or job in a single

location is indefinite if it is realistically expected to last for more than one year (whether or not it actually lasts for more than one year).

Note. Individuals with indefinite work assignments must include in income any amounts they receive from their employer for living expenses.

What travel expenses are deductible. To be deductible, business travel expenses must be ordinary and necessary expenses for traveling away from home for a business, profession, or job. An ordinary expense is one that is common and accepted in the individual's trade or business. A necessary expense is one that is helpful or appropriate for the business. Lavish, extravagant or personal expenses are not ordinary or necessary.

Note. An expense doesn't have to be required to be considered necessary.

Examples of deductible business travel expenses include:

1. Travel by airplane, train, bus or car between the individual's home and business destination,
2. Fares for taxis or other types of transportation between an airport or train station and a hotel, or from a hotel or to a work location,
3. Shipping baggage and sample or display material between regular and temporary work locations,
4. Using a personal car for business travel,
5. Lodging and meals while away,
6. Dry cleaning and laundry while away, and
7. Tips paid for services related to any of these expenses.
8. Other similar ordinary and necessary expenses related to the business travel.

Conventions, seminars and meetings. Generally, business travel expenses for conventions, seminars and meetings are deductible if attendance at the event benefits the business.

Note. Expenses to go to conventions for investment, political, social, or other purposes unrelated to the individual's trade or business are not deductible.

However, expenses for attending conventions, seminars and meetings that are held outside the North American area (NAA) are usually not deductible unless:

- The meeting is directly related to the active conduct of the individual's trade or business, and
- It is reasonable to hold the meeting outside the NAA.

Keeping records. The business traveler should **keep well-organized records** that substantiate the amount, time, place and business purpose of their travel expenses. A business traveler must substantiate the cost of each separate expense for travel, lodging and meals. Incidental expenses may be totaled in reasonable categories, such as taxis, fees, and tips.

Besides keeping receipts, canceled checks, credit card statements, bank statements (for debit card purchases) and other documents, an **individual traveling** for business should keep a diary, log or a calendar noting the dates and times of any business travel, as well as the business reason for that travel.