

Mixing Business with Pleasure

How to deduct business travel expenses when taking a combined trip



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More personal time is deductible on business trips than one may think, so take advantage of the opportunity to visit family and friends and see the sights!

Business deduction rules only apply if the business conducted out of town requires an overnight stay within reason. The actual costs of travel (e.g., plane fare, cab to the airport, etc.) are deductible for out-of-town business trips. You're also allowed to deduct the cost of meals and lodging. Meals are deductible even if they're not connected to a business conversation or other business function. As with all deductible meals, only 50% of the cost is allowed. Additionally, as per IRS regulations, no deduction is allowed for meals or lodging expenses that are "lavish or extravagant" or "unreasonable."

Personal costs on the trip aren't deductible, but business-related costs (dry cleaning, phone calls, and equipment rentals) are. Also, the 2017 Tax Cuts and Jobs Act eliminated the deduction of any entertainment expenses starting January 1, 2018.

These rules apply to domestic travel. The tax implications of foreign travel can get quite complex, depending on the nature of the trip, so be sure to consult with your tax advisor when contemplating a foreign itinerary.

Allocations may be required if the trip is a combined business/pleasure trip. For example, if you fly to a location for five days of business meetings and stay for an additional period of vacation, only the cost of meals, lodging, etc., for the business days are deductible, not for the personal vacation day (However, note that weekends are considered working days if work is required on Friday and Monday.) On the other hand, with respect to the cost of the travel itself (plane fare,

etc.), if the trip is "primarily" business, the travel cost can be deducted in its entirety and no allocation is required. If the trip is primarily personal, none of the travel costs are deductible. An important factor in determining if the trip is primarily business or personal is the amount of time spent on each (though other factors, such as the intention of the trip, may make a difference too).

If the trip doesn't involve the actual conduct of business but is for the purpose of attending a convention, seminar, etc., the IRS checks the nature of the meetings carefully to make sure they aren't vacations in disguise. Be careful to save all material helpful in establishing the business or professional nature of this travel.

The rules on deducting the costs for your spouse if they accompany you on a business trip are very restrictive. No deduction is allowed unless they are an employee of yours or your company and their travel is also for a business purpose. Also, note that personal expenses you incur at home as a result of taking the trip aren't deductible. For example, the cost of child care while you're away isn't deductible.

The IRS requires that careful documentation be prepared. Your tax advisor can advise you on the specifics and suggest ways to systematize and automate compliance with the rules. ■

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