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Mixing Business and Personal Travel: What and How Much Can You Deduct?

By: Ross Nisly

Have you ever traveled out of town trip to attend business meetings and added on a few vacation days at the end? You may be able to deduct some of your expenses for the trip, even though a portion of the trip was for personal pleasure. There are different rules that apply for trips within the United States and those outside of the United States.

Within the U.S.

When you travel for business within the United States, your transportation costs are 100% deductible as long as the primary purpose for your trip is business related. If you are traveling primarily for pleasure, you are not able to deduct the transportation expenses. The key question is what determines whether or not the trip is for business? One way to answer this is to consider the number of days spent for business and for pleasure.

Aside from days that are actually spent participating in business activities, other days that are considered business days include your travel days as well as weekends, if they fall between days in which business is conducted. Holidays are also included if they fall between business days. Days where your physical presence is required are business days even if you are not called to work on that specific day. These days are called “standby days.”

You may deduct your out-of-pocket expenses for all of your business days. Meals are subject to 50% limitation, but other out-of-pocket expenses, such as lodging, tips, cab fares and seminar and convention fees are 100% deductible. Any out-of-pocket expenses that you incur for personal days are nondeductible.

As long as you have more business days than personal days during the trip, you will likely be able to support the fact that business was the primary purpose of the trip and, therefore, will be able to deduct your expenses as discussed above. Be sure to maintain good documentation of your expenses as well as a log of your business activities for support.

Saturday Night Stayover

In certain situations where arriving or departing a day or two earlier or later would reduce the overall cost of your trip, you may deduct your out-of-pocket expenses (as described above) for the additional day(s) that you stay. You still must establish that business is the main reason for making the trip and, as long as the expenses you incur during the additional day(s) are not more than the savings for staying the extra time, you may deduct your trip’s expenses. If your spouse makes the trip with you, you may not deduct your spouse’s costs or any other costs that are for personal pleasure such as entertainment. Keep documentation of how much the trip would have cost if you did not stay the additional day(s) along with the costs you incurred during those days to prove that the savings in airfare exceeded the added costs of the longer stay.

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Foreign Travel

Normally, when you travel outside of the United States, you must allocate all of your travel expenses between business and personal days, including your transportation costs. However, if your trip is primarily for business, there are two exceptions to this that may allow you to deduct 100% of your transportation expenses. You must meet either *The One-Week Rule* or *The 25% Rule*.

The One-Week Rule applies to business trips that are one week or less in duration. You do not consider the day that you leave but you do count the day that you return in this number of days. If you meet this test, you will be able to deduct all of your transportation costs and all of your other out-of-pocket expenses (50% deductible meals) for your business days. Considering which days are for business are the same as noted for domestic travel.

The 25% Rule applies to trips that may last longer than one week but you spend fewer than 25% of your days as personal days. You are still able to deduct 100% of your transportation costs for this and out-of-pocket expenses as noted above. In this case, you should count both the day you leave and the day you return as business days as long as your travels are to or from a business destination.

Under all situations, you may not deduct your expenses for personal days. In circumstances that you do not qualify under the two rules, you may still be able to deduct all of your transportation costs. One way is if you are traveling on behalf of your employer under a reimbursement or travel allowance agreement. Another is if you can prove that in deciding you make the trip, a personal vacation was not a consideration for the destination chosen.

If you are unable to satisfy any of the above tests, you are only able to deduct your transportation costs up to the amount allocable to the number of days spent for business over the total number of days in travel, including the day you leave and the day you return. The days spent traveling count as business days. You must allocate all your out-of-pocket expenses using the same business percentage.

Foreign Conventions

For trips outside of North America to attend a convention related to your trade or business, the same rules apply to foreign travel expenses as stated above. You must also show that it was as reasonable to hold the meeting outside North America as it was in North America. Also, you must support that the time spent in business meetings or activities is much greater than that of personal activities. If such a case does not hold true, you may only be able to deduct the registration fees and other costs specifically related to business activities during your trip.

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Cruise Ship Conventions

You may only deduct up to \$2,000 per individual per calendar year for conventions that are held on cruise ships. You must also consider whether the ship is a U.S. registered vessel and if all of its ports are in the U.S. or U.S. possessions. Otherwise, you may not take the deduction. You are required to attach specific information to your return when taking this deduction. You must attach a signed statement that shows the total days aboard the cruise ship and the number of hours spent each day attending the business activities with the program of the convention's schedule. You must also attach a signed statement by an officer of the sponsoring organization that has a schedule of each day's activities and the number of hours you spent attending.

If you have or are planning to travel for business, be sure to take advantage of the tax breaks available by planning ahead. Good planning is the best way to ensure you are able to maximize your travel deductions.

If you have any questions about *your* business travel, contact a member of the Zinner & Co. tax department at 216.831.0733 for more information.