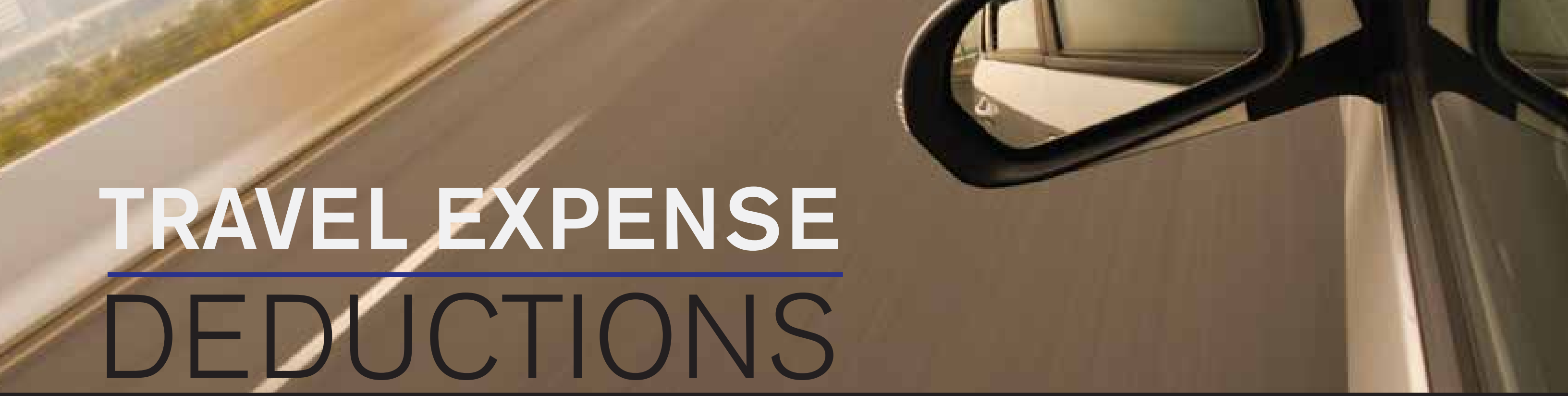


TRAVEL EXPENSE DEDUCTIONS

Many taxpayers have the same question when it comes to travel, meal, and vehicle expenses. “These expenses are tax-deductible, right?” As is the answer to many tax-related questions, it depends. In order to deduct travel, meal, and vehicle expenses, they need to be business-related as well as “ordinary and necessary.” An “ordinary” expense is one that is common and accepted in your trade or business. A “necessary” expense is one that is helpful and appropriate for your business. An expense does not have to be required to be considered necessary.

TAX HOME VS. FAMILY HOME

Business-related travel expenses can apply to an employee while working for his or her employer (whether the expense is reimbursed or not), sole proprietors, or employers who reimburse their employees for business-related expenses.

❯❯❯ **PLEASE NOTE: Due to the Tax Cuts and Jobs Act, effective 1/1/2018, unreimbursed employee business expenses are not tax-deductible as the deduction for miscellaneous itemized deductions subject to the 2% AGI floor is suspended.**

Deductible expenses include travel while away from home. This occurs when your duties require you to be away from the general area of your regular place of business substantially longer than an ordinary day’s work and you need sleep or rest to meet the demands of your work while away. Also, business-related transportation is deductible for ordinary and necessary costs of getting from one workplace to another for your business or profession, visiting clients or customers, going to a business meeting away from your regular workplace, or getting from your home to a temporary workplace when you have one or more regular places of work. However, note that commuting expenses between your “family home” and “tax home” are not deductible.

Generally, your tax home is your regular place of business or post of duty, while your family home is where you reside when you are not working.

Your tax home includes the entire city or general area in which your business is located. If you don’t have a main place of business or post of duty and there is nowhere you regularly live, you are considered an itinerant (a transient) and your tax home is wherever you work. As an itinerant, you cannot claim a travel expense deduction because you are never considered to be traveling away from your tax home. Also, if you live in one city or town and work at an office in a different city or town, the travel expense between your family home and tax home is not deductible as it is considered commuting.

AUTOMOBILE EXPENSES

Vehicle (truck or car) expenses are one of the most common travel expenses, and are also referred to as automobile expenses by the IRS. Your vehicle expenses are deductible for operating and maintaining your automobile when traveling away from home on business. You can deduct actual expenses or the standard mileage rate, as well as business-related tolls and parking. If you rent a car while away on business, you can only deduct the business-use portion of the expense. In either case, to claim the standard mileage or actual expenses you must track your business and total mileage. In addition, to claim actual expenses you must have substantiation of your expenses. Substantiation requirements are discussed later in this article.

MEALS AND LODGING

Meals and lodging are other common travel expenses. Your lodging and meals are deductible if your business trip is overnight or long enough that you need to stop for sleep or rest to properly perform your duties. Meals include amounts spent for food, beverages, taxes and related tips. Meals can be deducted if it is necessary for you to stop for substantial sleep or rest or if the meal is business-related. You cannot deduct lavish or extravagant meal expenses. An expense is not considered lavish or extravagant if it is reasonable based on the facts and circumstances. Expenses won't be disallowed merely because they are more than a fixed dollar amount or take place at expensive restaurants, hotels, nightclubs, or resorts.

Meal expenses must be tracked separately from lodging and other travel expenses. For example, a hotel stay may have meals included with the room charge. The meal expense must be separated for tax purposes due to the 50% deduction limit on meals. Generally speaking, only 50% of business-related meal expenses are tax-deductible. However, for certain transportation workers, 80% of business-related meal expenses are tax-deductible. Also, note that instead of deducting actual expenses incurred for meals while traveling for business, employees and self-employed individuals may deduct the Per Diem amounts. Per Diem rates are IRS set amounts for meals and lodging based on location. Per Diem allowances for lodging may only be used by employers for determining employee reimbursements. Employees and sole proprietors may not use the Per Diem allowance to substantiate lodging deductions; actual receipts are required.

SUBSTANTIATION

Substantiation is critical. The IRS has set specific requirements for substantiating deductions for travel expenses. Taxpayers are required to maintain an account book, diary, log, trip sheet or similar records, as well as documentary evidence (receipts and cancelled checks for example). To secure deductions, it is strongly encouraged that taxpayers document these expenses as they incur them throughout the year instead of recapping mileage and expenses at year-end. The amount (dollars or mileage), time (dates), place or description, and business purpose and/or relationship must be kept with your travel records to help substantiate all travel deductions.

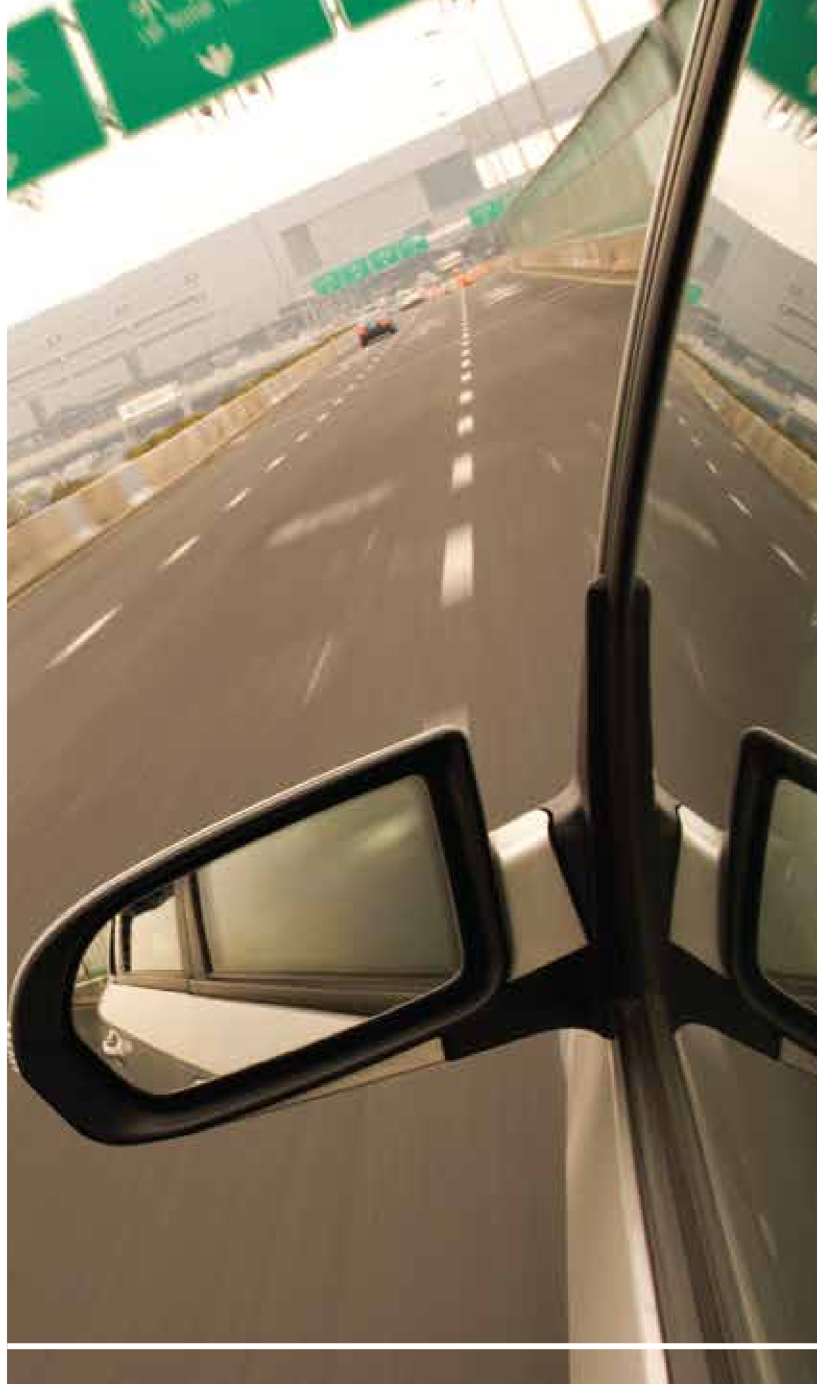
When it comes to substantiation of mileage on your vehicle used for business purposes, it is recommended that you get service work completed at least once per year, such as some type of repair work, new tires, an oil change, etc. The key here is that when you take your vehicle in for service, the repair shop records the mileage in and out and typically records that on the repair bill you receive. In the event you are ever selected by the IRS to provide your records to prove your deduction (substantiation), you can then substantiate your mileage based on the independent service records.

Whether you claim the standard business mileage rate for vehicle expenses on your tax return or if you claim actual expenses, having a service record is helpful. It is also recommended that you take the actual odometer reading on your vehicle used for business purposes on January 1st each year, or as close as possible to that date, so you can calculate total mileage from year-to-year. If claiming standard mileage or actual expenses, you must track your business mileage as well as your total annual mileage, as both are required to be disclosed on your tax return each year. If you take the standard mileage rate, your deduction equals business mileage for the year multiplied by the IRS published standard business mileage rate ($0.545/mile for 2018). If you claim actual vehicle expenses, your business deduction is calculated by taking the total vehicle expenses for the year multiplied by the business-use percentage. The business-use percentage is business miles divided by total miles for the year. If you cannot substantiate your total miles for the year based on service records, the IRS may disallow your business mileage in the event you are selected for an audit.

PERSONAL USE OF COMPANY-PROVIDED VEHICLE

Another area of scrutiny for the IRS is personal use of company-provided vehicles. If your employer provides you with a company-owned vehicle for use, likely there is personal use of that vehicle from time-to-time. Personal use is any use of the vehicle other than use in your trade or business. The amount for personal use must be included in the employee's wages or reimbursed back to the employer by the employee. You are still required to track both the business and total mileage each year on any company-owned vehicles provided to employees. As an alternative to providing a company-owned vehicle, employers may want to consider establishing an accountable plan whereby employees are reimbursed for business use of their personal automobiles instead.

The ability to deduct business-related travel expenses is a nice benefit for employers, employees, and sole proprietors. However, if not properly substantiated, these deductions may be lost in the event of IRS scrutiny. Please consult with your local Hawkins Ash CPAs professional if you have any questions or concerns when it comes to deducting travel expenses.



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