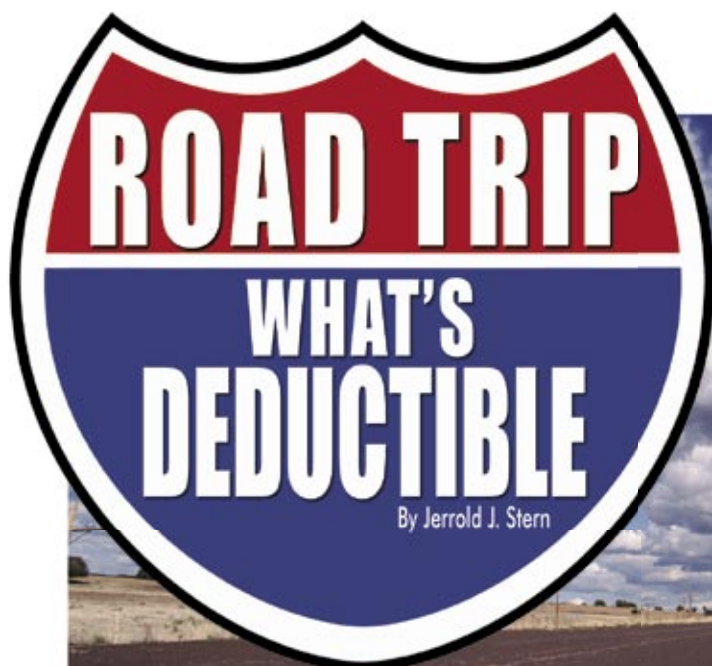


A Reprint from *Tierra Grande*

**R**oad trips can be educational, economically rewarding and fun for real estate professionals seeking to expand their businesses. But what qualifies as a business trip, and which expenses are deductible?

Uncle Sam allows deductions that reduce tax liability when business travel takes the taxpayer away from home overnight. Examples of business travel are conventions, professional education events, and trips to cultivate business prospects and research market territories.

Assume Tim Johnson is a salesperson who will be attending a real estate sales convention at a four-star hotel in Lake Tahoe. Tim plans to fly first class (\$1,000) and will stay at the hotel for five days (\$250 per day). Three days are

for the convention, and two days are for some well-deserved rest and relaxation.

Tim wonders how much of his expense the government will allow as business. The chart addresses these tax questions.

primarily for business. In this case, the total cost of the airfare (\$1,000) is deductible. Travel costs are never prorated between business and personal days. If Tim stays in Tahoe for three (or more) personal days, the IRS may contest the airfare deduction because the trip may be seen as primarily for personal reasons.

One-half the cost of Tim's meals during the three business days is deductible. However, meals on personal days are not.

Lodging costs for the three business days ( $3 \times \$250 = \$750$ ) are deductible. There is no deduction for lodging during the two

personal days. Entertainment expenses are determined by another set of tax rules beyond the scope of this article.

Of course, any reimbursement of travel expenses from Tim's employer reduces the amount he can deduct.

If the employer reimburses Tim \$150 per night for lodging, Tim would only deduct the \$100 difference (\$250 less \$150).

For 2005, employees and self-employed taxpayers have the option of using a \$36 per diem allowance for meals (\$46 per diem for "high-cost" localities) rather than collecting receipts

for such expenses. The per diem rates for lodging are \$153 for "high-cost" areas and \$91 for all other areas.

Deductible Business Expenses

Category	Tax Rule	Documentation	Deductible Amount
Airfare	Primary purpose of trip must be for business	Ticket stub, canceled check or charge card receipt	Entire ticket cost (regardless of first class, coach or other designation)
Auto transportation	Same as above	Records that specify dates, mileage, location, purpose of trip	40.5 cents per mile or out-of-pocket costs
Meals	Meals during business days are deductible.	Receipts, canceled check or charge card receipt	50 percent of meal cost, including cocktails and gratuities, or per diem amount
Lodging	Lodging during business days is deductible.	Receipts, etc.	Entire cost of room for each business day, including tax, business telephone calls and dry cleaning, or per diem amount

Source: Jerrold J. Stern

Because the number of Tim's business days (three) exceeds his personal days (two), the trip is considered to be

Documentation requirements for specific lodging and meal expenses are shown in the table. In addition, documentation is needed to show the business purpose of the trip. A brochure, pamphlet, e-mail announcement or other similar item detailing the time, place and business activities will suffice.

For travel by auto, taxpayers can select one of two methods: an automatic mileage

rate of 40.5 cents per mile or actual out-of-pocket costs. Actual costs include gas, oil, repairs, insurance, depreciation and taxes. Parking fees and tolls may be deducted regardless of the method selected.

When gasoline prices are unusually high, taxpayers may find the inconvenience of keeping track of actual costs yields worthwhile tax savings. Ordinarily,

the automatic mileage rate is the better choice because of its simplicity.

Tax rules for business travel can be complex. Consultation with a tax accountant or tax attorney is recommended. ➡

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