Abstract: Although conference calls and Web meetings are increasingly prevalent, plenty of dedicated “road warriors” still engage in business-related travel. It’s important for the companies sending them into battle to know and understand the tax ramifications. This article examines concepts such as accountable plans, “business travel status” and how to define a “tax home.”

The tax ramifications of business travel

Business travel isn’t what it used to be. With conference calls and Web meetings increasingly prevalent, the sheer volume of corporate travelers has probably diminished. But there are still plenty of dedicated “road warriors” on the job. And if your company is sending some into battle, it’s important to understand the tax ramifications.

Accountable plans

Generally, for federal tax purposes, a company may deduct all ordinary and necessary expenses paid or incurred during the tax year in carrying on any trade or business. This includes travel expenses that aren’t deemed lavish or extravagant, which can qualify as a “working condition fringe benefit.”

Working condition fringe benefits are any property or service provided to an employee to the extent that, if he or she paid for the property or service him- or herself, it would be tax-deductible. Such benefits aren’t included in the employee’s gross income or subject to FICA taxes or income tax withholding.

Under the Internal Revenue Code, an advance or reimbursement for travel expenses made to an employee under an “accountable plan” is considered a working condition fringe benefit. In general, an advance or reimbursement is treated as made under an accountable plan if an employee:

- Receives the advance or reimbursement for a deductible business expense paid or incurred while performing services for his or her employer,
- Accounts for the expense to his employer within a reasonable period of time and in an adequate manner, and
- Returns any excess reimbursement or allowance within a reasonable period of time.

By contrast, an advance or reimbursement made under a “nonaccountable plan” isn’t considered a working condition fringe benefit — it’s treated as compensation. Thus, the amount is fully taxable to the employee, and subject to FICA and income tax withholding for the employer.

Business travel status

Although business transportation — going from one place to another without an overnight stay — is deductible, attaining “business travel status” fully opens the door to additional tax benefits. Under business travel status, the entire cost of lodging and incidental expenses, and 50% of meal expenses, is generally deductible by the employer that pays the bill. What's more, those amounts don't equate to any taxable income for employees who, as mentioned, are reimbursed under an accountable plan.

So how does a business trip qualify for business travel status? It generally must involve:

- Overnight travel,
- An employee traveling away from his or her "tax home," and
- A temporary trip undertaken solely, or primarily, for ordinary and necessary business reasons.

Bear in mind that "overnight" travel doesn't necessarily mean an employee must be away from dusk till dawn. Any trip that's long enough to require sleep or rest to enable the taxpayer to continue working is considered "overnight."

Home sweet *tax* home

One particular aspect of business travel tax treatment that many companies struggle with is the concept of a "tax home." In a nutshell, the IRS allows deductions for meals and lodging on business trips because these expenses are duplicative of costs normally incurred at employees' homes and employees are required to spend more money while traveling. Consequently, a taxpayer can't claim deductions for meals and lodging unless he or she has a home for tax purposes and travels away from it overnight.

A "tax home" — that is, an employee's home for purposes of the business-travel deduction rules — is located at either his or her:

- Regular or principal (if more than one regular) place of business, or
- Regular place of abode in a real and substantial sense, if he or she has no regular or principal place of business.

If an employee has two or more work locations, his or her "main" place of work will be considered the tax home. In determining which location is the main place of work, the IRS looks at factors such as total time spent at, degree of business activity in, and amount of income derived from, each business location.

There may be situations, however, in which an employee has no permanent residence. For example, an itinerant salesperson who moves from place to place is only "home" wherever he or she stays at each location. Because the taxpayer doesn't have duplicative expenses, there's likely no deduction for meals and lodging.

There is an exception under which local, "nonlavish" lodging expenses incurred while not away from home overnight on business may be deductible if all facts and circumstances so indicate. One factor specified in the regs is whether the employee incurs the expense because of a bona fide employment condition or requirement. An example is a business that's hosting a conference at a local hotel, where it's necessary for some employees to stay at the hotel to effectively run the conference.

Important rules

Even if your company has pumped the brakes on business trips of late, knowing the tax rules involved remains important. These rules can save your organization tax dollars and spare your employees aggravation and increased liability on their own returns. Contact us for help ensuring you're handling travel expenses properly.