

Travel & Entertainment Expenses

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1. What costs can I deduct when I travel for my job?

If your job requires you or your employees to travel, you will incur expenses. You may choose the method you use to record these expenses. Travel and Entertainment Expenses can be divided into four categories:

- Local Transportation,
- Out of Town Travel,
- Entertainment expenses, and
- Gifts

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2. What type of local business transportation can be deducted?

Local transportation expenses include:

- Getting from one workplace to another
- Visiting clients or customers
- Going to a business meeting
- Getting from your home to a temporary workplace when you have one or more regular places of work. The temporary work must be realistically expected to last (and must actually last) for 1 year or less.

Example:

Art is a self-employed contractor. He drives his pick up truck from his home to the office to check on messages and then leaves to pick up materials to be used that day. He then drives to the first job site and leaves the materials for his workers. He returns to the office and picks up his designs and drives to the county offices to apply for a building permit. He drives home once he has the permit. Except for the trip from Art's home to the office and from the county offices to his home, all of the other trips are business.

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3. What is commuting and can I deduct any of the costs?

Commuting includes the costs of taking a bus, taxi, or driving a car between your home and your main place of work. If you have no regular office, the trip from your home to the first stop is commuting. The trip from the last stop of the day to your home is commuting. Commuting expenses are not deductible. See [Revenue Ruling 99-7](#)

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4. What methods can I use to compute the deduction for my vehicle expenses?

If you use your vehicle for business, you can choose the method you use to compute the deduction. Your choices are:

- Standard Mileage Rate
- Actual Costs

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5. What is the standard mileage rate?

The standard mileage rate method allows you to deduct a certain amount per business mile driven. You can use this method for both yourself and as a reimbursement to your employees for the use of their own vehicles. The standard

mileage rate changes periodically for inflation. Multiply the rate by the business miles to determine your deduction. This amount covers all of the operating costs of your car. Therefore, if you choose this method, you cannot deduct your actual operating expenses. The standard mileage rate changes frequently, so check the current [Publication 463](#), Travel, Entertainment, Gifts, and Car Expenses for rate applicable to your year.

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6. If I use the standard mileage rate, can I deduct any other costs of using my car?

If you are self-employed, in addition to the standard mileage rate you can still deduct:

- the part of the interest expense on a car loan that represents your business use of the car (the remainder is not deductible)
- the part of the personal property tax on your car that represents your business use of the car (the remainder is deductible if you itemize deductions), and
- business-related parking fees and tolls.

Employees may not deduct any interest paid on a car loan but may deduct personal property tax on their cars if they itemize deductions. Parking tickets are never deductible.

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7. When can I use the standard mileage rate?

You can use the standard mileage rate if:

- You own or lease your vehicle,
- You use the vehicle in your business,
- You are not using 2 or more vehicles at the same time,
- You have not claimed actual expenses on the vehicle earlier, and
- You keep track of your business miles.

Example:

Greg is a contractor who has 2 pick up trucks. He uses one truck and his job foreman uses the other truck. Greg also has 4 more employees who use their own trucks to pick up materials occasionally. Greg can reimburse his employees using the standard mileage rate. However, since Greg owns and uses 2 trucks at the same time, he must use actual expenses. He and his job foreman use the trucks at the same time.

Example (continued):

If Greg owned 1 pick up truck, and his foreman owned his own truck, Greg could reimburse his foreman at the standard mileage rate. Greg could claim the standard mileage rate for the business use of his truck too.

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8. What can I deduct using actual costs?

Actual car expenses include the costs of:

Depreciation	Garage Rent	Gas
Insurance	Interest	Lease Fees
Licenses	Oil	Parking fees
Rental fees	Repairs	Taxes
Tires	Tolls	

First total the costs from the list above for each vehicle for the year. If the vehicle is used for both business and personal, you must determine the business use percentage. This is computed by dividing your business miles by your total miles for the year. Multiply the total costs per vehicle by the business use percentage to compute the amount deductible. See example.

Example:

Isaac uses his truck for business. He kept track of his miles all year long using a mileage log.

Total miles	25,000
Commuting miles	4,000
Business miles	15,000
Other personal miles	6,000

Isaac's business percentage is 60% (15,000/25,000)

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9. How do I keep track of my business miles?

In order to keep track of the business miles, you should keep a logbook in your vehicle and record the date, the miles, and the purpose of the trip for all business travel. You should also record your odometer readings at the beginning and end of the year so you will have the total miles driven.

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10. Can I always deduct my out of town travel costs?

Whether or not you can deduct your out of town travel depends on the location of your tax home. Generally, your tax home is your regular place of business or your post of duty, regardless of where you maintain your family home.

You may have a tax home even if you do not have a regular or main place of business. If you answer yes to all three of the following questions, your tax home is the home where you regularly live, and you may be able to deduct travel expenses:

- Do you conduct part of your business in the same area as your home where you spend the night?
- Do you duplicate your living expenses when you are away from that home for business?
- Do you often use that home for lodging, or have a member of your family living in that home?

If you answer yes to two of the questions, you may have a tax home depending on all the facts and circumstances. If you answer yes to only one of the questions, you are a transient. As a transient, you cannot claim a travel expense deduction because you are never considered away from home. Each place you work becomes your tax home and you cannot deduct travel expenses.

Example:

Keith works for various contractors in the same city that he and his family live. Several of the contractors send him out of town on jobs that last a few weeks. While Keith is away from his home, he incurs traveling costs. These costs are deductible.

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11. My out of town job may last a long time, can I still deduct travel costs?

You must determine whether your assignment is temporary or indefinite when you start work. If your job away from your home is temporary, your tax home does not change. You are considered to be away from home for the duration of the job, and your travel expenses are deductible. Generally, a temporary assignment in a single location is one that is realistically expected to last (and does in fact last) for one year or less. See [Revenue Ruling 93-86](#)

Employment that is initially temporary may become indefinite due to changed circumstances. A series of assignments to the same location, all for short periods but that together cover a long period, may be considered an indefinite assignment. If your assignment or job is indefinite, that location becomes your new tax home and you cannot deduct your travel expenses while there.

Example 1:

You are a construction worker. You live and regularly work in Seattle. Because of a shortage of work, you took a job on a construction project in Portland. Your job was scheduled to end in 8 months, and you planned to return to Seattle at that time. The job actually lasted 10 months, after which time you returned to Seattle. Your family continued to live in your home in Seattle.

Example 1 (continued):

While in Portland, you lived in a trailer you own. You returned to Seattle most weekends and maintained contact with the local union to see if you could get work in Seattle. You realistically expected the job in Portland to last 8 months. The job actually did last less than one year. Because you expected to return home when it ended, your tax home is in Seattle for travel expense purposes.

Example 2:

The facts are the same as in Example 1, except that you realistically expected the work in Portland to be completed in 18 months. The job actually was completed in 10 months.

Your job in Portland is indefinite because you realistically expected the work to last longer than one year, even though it actually lasted less than one year. You cannot deduct any travel expenses you paid or incurred in Portland.

Likewise, when you come home on weekends to see your family, you cannot claim any living costs.

Example 3:

The facts are the same as in Example 1, except that you realistically expected the work in Portland to be completed in 9 months. After 8 months, however, you were asked to remain for 7 more months (for a total actual stay of 15 months).

Initially, you realistically expected the job in Portland to last for only 9 months. However, due to changed circumstances occurring after 8 months, it was no longer realistic for you to expect that the job in Portland would last for one year or less. You can only deduct your travel expenses for the first 8 months. You cannot deduct any travel expenses you paid or incurred after that time.

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12. What are the typical business expenses I can deduct while I am travelling?

Transportation

- Travel by airplane, train, bus, or car between your home and your business destination.
- Taxi, commuter bus, and airport limousine
- Fares for these and other types of transportation that take you to or from:
 - The airport or stations and your hotel, and
 - The hotel and the work location

Baggage and shipping

- Sending baggage between your regular and temporary work locations

Car

- Operating and maintaining your car when traveling away from home on business. You may deduct actual expenses or the standard mileage rate. If you lease a car while away from home on business, you can deduct only the business-use portion of the lease.

Lodging and Meals

- Expenses for your lodging and meals if your business trip is overnight or long enough that you need to stop for sleep or rest. Meals include amounts spent for food, beverages, taxes, and related tips.

Cleaning

- Dry cleaning and laundry

Telephone

- Business calls while on your business trip. This includes business communication by fax machine or other communication devices.

Other

- Other similar ordinary and necessary expenses related to your business travel.

Tips

- Tips you pay for any of the above expenses.

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13. What type of expenses for meals and entertainment may I deduct?

You may be able to deduct business-related entertainment expenses you have for entertaining a client, customer, or employee. Entertainment includes any activity generally considered to provide entertainment, amusement, or recreation. Examples include entertaining guests at nightclubs; at social, athletic, and sporting clubs; at theaters; at sporting events; or on hunting, fishing, vacation, and similar trips.

Entertainment includes the cost of a meal you provide to a customer, or client, whether the meal is a part of other entertainment or by itself. A meal expense includes the cost of food, beverages, taxes, and tips for the meal. Not all expenses for meals and entertainment are deductible. See Question 14 for the requirements for deductibility.

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14. What are the requirements for deductibility?

You can deduct ordinary and necessary expenses to entertain a client, customer or employee if the expense meets the *directly-related test* or the *associated test*.

Directly-Related Test

Business is generally not considered to be the *main purpose* when business and entertainment are combined on hunting or fishing trips, or on yachts or other pleasure boats. It is not necessary to devote more time to business than to entertainment. However, if the business discussion is only incidental to the entertainment, it is not directly related.

If the entertainment takes place in a *clear business setting* and is for your business or work, the expenses are considered directly related. The following situations are examples of entertainment in a clear business setting:

- Business meal with a supplier at a local restaurant,
- Entertainment at a convention where business goodwill is created through the display or discussion of business products, or
- Entertainment of business and civic leaders at the opening of a new hotel or play when the purpose is to get business publicity rather than to create or maintain the goodwill of the persons entertained.

Expenses generally are not considered directly related when entertainment occurs where, because of substantial distractions, there is little or no possibility of engaging in the active conduct of business. Examples are:

- A meeting or discussion at a nightclub, theater, or sporting event,
- A meeting or discussion during what is essentially a social gathering, such as a cocktail party, or
- A meeting with a group that includes persons who are not business associates at places such as cocktail lounges, country clubs, golf clubs, athletic clubs, or vacation resorts.

Associated Test

Even if your expenses do not meet the directly-related test, they may meet the associated test. To meet this test, you must show that the entertainment:

- Has a *clear business purpose*. The purpose may be to get new business or to encourage the continuation of an existing business relationship
- Directly precedes or follows a substantial business discussion.
- You must show that you actively engaged in a discussion or meeting to get income or some other specific business benefit.
- Entertainment that is held on the same day as the business discussion is considered held directly before or after the business discussion.

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15. Can I deduct 100% of the meals and entertainment costs?

In general, you can deduct only 50% of your business-related meal and entertainment expenses. You apply the 50% limit after determining the amount that would otherwise qualify for a deduction.

The limit applies to business meals or entertainment expenses incurred while:

- Traveling away from home (whether eating alone or with others) on business,
- Entertaining business customers at your place of business, a restaurant, or other location, or
- Attending a business convention or reception, business meeting, or business luncheon at a club.

Taxes and tips relating to a business meal or entertainment activity are included in the amount that is subject to the 50% limit.

Examples:

Marc takes a client out to dinner to discuss a bid proposal on a new building. During dinner, the two settle the remaining issues. The following night, they decide to go to a nightclub. Marc can deduct 50% of the dinner, but the costs related to the nightclub are not deductible.

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16. What kind of records should I keep?

You are required to document all the elements of the business entertainment expense in a timely manner. You should keep the information required in an account book, diary, or similar record. You must keep records of the entertainment to show:

- the person entertained and their connection with your business,
- the business purpose,
- the date, time, and place, and
- the cost of the expense.

In addition to recording the information in your account book, etc., receipts are **required** for all expenses of \$75 or more. Each receipt should include the date, place, person entertained, type of entertainment, business purpose, and business relationship.

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17. Can I deduct gifts?

If you give gifts in the course of your business, you can deduct no more than \$25 for business gifts you give directly or indirectly to any one person during your tax year. If you and your spouse both give gifts, you are jointly limited to \$25 per year to any one person. It does not matter whether you have separate businesses, are separately employed, or whether each of you has an independent connection with the recipient.

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18. Are small gifts included in the \$25 yearly minimum?

The following items are *not included* in the \$25 limit for business gifts.

- An item that costs \$4 or less, has your name clearly and permanently imprinted on the gift, and is one of a number of identical items you widely distribute (examples include pens, desk sets, and plastic bags, and cases),
- Signs, display racks, or other promotional material to be used on the business premises of the recipient.

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