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## Tax Tips for Business Travelers

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*The IRS can't give you more legroom on the plane, but it can give you more breathing room in your budget thanks to these business travel deductions.*

By: MATT ALDERTON

When you own your own business, "taxes"—five letters to the average Joe—quickly becomes a four-letter word. It gets stuck in your throat like a hard-to-swallow nut every time you cash a check, and coughed up like a fly you didn't mean to swallow every time you write one.



When pre-tax income is the only kind you've got, it's easy to become financially phobic. After all, for the self-employed, even lunch can sound like a luxury. So when it comes to travel, it's no wonder that many small business owners shudder and shrug, then say simply, "I wish" or, "Oh well."

The truth of the matter is, not only *can* you travel; you *should*. That's because business travel is tax deductible, and when you hit the road, come tax time you'll get to keep more of the money you've worked so hard to make.

### The Rules of the Road

When small business owners travel, taxes are usually the last thing on their mind. But if you ask Sally Herigstad, CPA and author of *Help! I Can't Pay My Bills*, they should be first.

"Travel expenses are one of the most common deductions that small business owners shortchange themselves on," she says. "Every dollar of travel expense you deduct saves you not only income tax, but self-employed Social Security and Medicare tax, as well."

If it sounds too good to be true, it isn't—provided that your trips truly are for work, and not for play. "Regardless of what anyone says," Herigstad says, "you can't go on vacation, spend five minutes looking at something related to your business and write off the trip."

In order for a travel-related expense to qualify as a legitimate deduction, it must meet two basic requirements, according to Diane Kennedy, CPA and founder of [Tax Loopholes](#), a Phoenix-based tax education company. "The rule with the IRS is that an expense must be 'ordinary' and 'necessary' to get the deduction," she says.

In other words, if you spent it in order to do business—more business or better business—you can probably deduct it.

### What You Can Deduct

So what, exactly, is deductible? Just about everything, according to Herigstad, including plane, train, bus and taxi fare; car rentals; shipping for your baggage and supplies; lodging; laundry and dry cleaning; and meals, including tips. "You can even deduct cruise ship fares if you are there for a seminar or business meeting," she says. "The amount you can deduct may be limited, but with cruise prices coming down, it's entirely possible that your cruise may be deductible."

Typically, a business trip can be broken down into business days and personal days; the former are deductible and the latter are not.

"The secret is in the 'business day,'" Kennedy says. "If you do business in that day, then the day counts. If you had 10 hours worth of work to do and you were somewhere for two days, you're better off, tax-wise, to work five hours each of the two days. If you instead work really hard to get everything done in one day, and play the next, you'll only get half the deductions."

As a general rule, 100 percent of your expenses are deductible on business days, so long as you are out of town overnight. Meals and entertainment, however, are typically only deductible at a rate of 50 percent.

While both domestic and international travel are tax deductible, you don't have to fly across the country to save money on your taxes. If you travel locally, for instance—by car—you can take a standard mileage deduction; in 2007, you can deduct 48.5 cents per business-related mile you drive, according to Herigstad, not to mention the full cost of tolls and parking. Or, Kennedy adds, if your vehicle is used more than half the time for work, you can deduct a percentage of your vehicle costs—mortgage interest, gas, oil, repairs and registration—instead.

### What You Can't Deduct

Of course, not everything is tax deductible. When you're doing your taxes next year, consider these major exceptions to business travel deductions:

- **Recreational travel:** "Travel expenses that are specifically personal are not deductible," Kennedy says. If you go to Disney World, for instance, your hotel may very well be deductible if you conduct business from your room; the cost of tickets to the park, however, probably won't be.
- **Family travel:** If you're bringing your spouse or your kids on the road with you, don't expect to be able to deduct their

travel costs—unless, of course, you employ them in your business. "Answering your phone or doing a few secretarial duties isn't enough," Herigstad cautions.

- **Investment-related travel:** If you're traveling to meet with a client, you can definitely deduct your travel. If you're going to a stockholder's meeting, however, or going to an investment seminar, you can't. On the flipside, if you're going to an educational seminar, convention or tradeshow that will make you better at what you do, you *can* deduct relevant expenses, provided that the event lasts at least six hours per day and that you attend at least two-thirds of the program.

### No Matter What, Write It Down

Business travel is without question a legitimate deduction, experts insist. Still, if you took a trip, you have to prove that you used it to do work.

"If travel is ever questioned [by the IRS], we have always been successful with the deduction if we produce back-up information such as notes from the meetings, brochures, business cards and the like," Kennedy says. For that reason, she recommends business travelers keep copies of their travel-related receipts and statements, as well as any business collateral that they collect on the road. When she travels, for examples, she creates a file folder labeled with her destination in which she keeps all her records.

"It's a hassle to write it down or enter it in your PDA," Herigstad admits, "but those [expenses] add up. Next year, when you file your return, you'll be glad you got all the deductions you were entitled to."

For more information on deducting business travel, consult [Tax Topic 511](#) on the [IRS Web site](#).

### Links referenced within this article

Tax Loopholes

<http://www.taxloopholes.com>

Tax Topic 511

<http://www.irs.gov/taxtopics/tc511.html>

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