

# Key Pages & Highlights from Pub 463

**Table 1-1. Travel Expenses You Can Deduct**

This chart summarizes expenses you can deduct when you travel away from home for business purposes.

IF you have expenses for...	THEN you can deduct the cost of...
<b>transportation</b>	travel by airplane, train, bus, or car between your home and your business destination. If you were provided with a ticket or you are riding free as a result of a frequent traveler or similar program, your cost is zero. If you travel by ship, see <a href="#">Luxury Water Travel</a> and <a href="#">Cruise Ships</a> (under <i>Conventions</i> ) for additional rules and limits.
<b>taxi, commuter bus, and airport limousine</b>	fares for these and other types of transportation that take you between: <ul style="list-style-type: none"> <li>• The airport or station and your hotel, and</li> <li>• The hotel and the work location of your customers or clients, your business meeting place, or your temporary work location.</li> </ul>
<b>baggage and shipping</b>	sending baggage and sample or display material between your regular and temporary work locations.
<b>car</b>	operating and maintaining your car 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 from home on business, you can deduct only the business-use portion of the expenses.
<b>lodging and meals</b>	your lodging and meals if your business trip is overnight or long enough that you need to <b>stop for sleep or rest to properly</b> perform your duties. Meals include amounts spent for food, beverages, taxes, and related tips. See <a href="#">Meals</a> for additional rules and limits.
<b>cleaning</b>	dry cleaning and laundry.
<b>telephone</b>	business calls while on your business trip. This includes business communication by fax machine or other communication devices.
<b>tips</b>	tips you pay for any expenses in this chart.
<b>other</b>	other similar ordinary and necessary expenses related to your business travel. These expenses might include transportation to or from a business meal, public stenographer's fees, computer rental fees, and operating and maintaining a house trailer.

you (or your employee) on a business trip or to a business convention, you generally cannot deduct his or her travel expenses.

**Employee.** You can deduct the travel expenses of someone who goes with you if that person:

1. Is your employee,
2. Has a bona fide business purpose for the travel, and
3. Would otherwise be allowed to deduct the travel expenses.

**Business associate.** If a business associate travels with you and meets the conditions in (2) and (3) above, you can deduct the travel expenses you have for that person. A business associate is someone with whom you could reasonably expect to actively conduct business. A business associate can be a current or prospective (likely to become) customer, client, supplier, employee, agent, partner, or professional advisor.

**Bona fide business purpose.** A bona fide business purpose exists if you can prove a real business purpose for the individual's presence. Incidental services, such as typing notes or assisting in entertaining customers, are not enough to make the expenses deductible.

**Example.** Jerry drives to Chicago on business and takes his wife, Linda, with him. Linda is not Jerry's employee. Linda occasionally types notes, performs similar services, and accompanies Jerry to luncheons and dinners. The performance of these services does not establish that her presence on the trip is necessary to the conduct of Jerry's business. Her expenses are not deductible.

Jerry pays \$199 a day for a double room. A single room costs \$149 a day. He can deduct the total cost of driving his car to and from Chicago, but only \$149 a day for his hotel room. If he uses public transportation, he can deduct only his fare.

## Meals

You can deduct the cost of meals in either of the following situations.

- It is necessary for you to **stop for substantial sleep or rest to properly perform** your duties while traveling away from home on business.
- The meal is business-related entertainment.

Business-related entertainment is discussed in [chapter 2](#). The following discussion deals only with meals that are not business-related entertainment.

**Lavish or extravagant.** You cannot deduct expenses for meals that are lavish or extravagant. An expense is not considered lavish or extravagant if it is reasonable based on the facts and circumstances. Expenses will not be disallowed merely because they are more than a fixed dollar amount or take place at deluxe restaurants, hotels, nightclubs, or resorts.

**50% limit on meals.** You can figure your meals expense using either of the following methods.

- Actual cost.
- The standard meal allowance.

Both of these methods are explained below. But, regardless of the method you use, you generally can deduct only 50% of the unreimbursed cost of your meals.

If you are reimbursed for the cost of your meals, how you apply the 50% limit depends on whether your employer's reimbursement plan was accountable or nonaccountable. **If you are not reimbursed, the 50% limit applies whether the unreimbursed meal expense is for business travel or business entertainment.** Chapter 2 discusses the **50% Limit** in more detail, and chapter 6 discusses [accountable](#) and [nonaccountable](#) plans.

## Actual Cost

You can use the actual cost of your meals to figure the amount of your expense before reimbursement and application of the 50% deduction limit. If you use this method, you must keep records of your actual cost.

## Standard Meal Allowance

Generally, you can use the "standard meal allowance" method as an alternative to the actual cost method. It allows you to **use a set amount for your daily meals and incidental expenses (M&IE)**, instead of keeping records of your actual costs. The set amount varies depending on where and when you travel. In this publication, "standard meal allowance" refers to the federal rate for M&IE, discussed later under [Amount of standard meal allowance](#). If you use the standard meal allowance, **you still must keep records to prove the time, place, and business purpose of your travel.** See the recordkeeping rules for travel in [chapter 5](#).

**Incidental expenses.** The term "incidental expenses" means:

- Fees and tips given to porters, baggage carriers, bellhops, hotel maids, stewards or stewardesses and others on ships, and hotel servants in foreign countries,
- Transportation between places of lodging or business and places where meals are taken, if suitable meals can be obtained at the temporary duty site, and
- Mailing costs associated with filing travel vouchers and payment of employer-sponsored charge card billings.

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Incidental expenses do not include expenses for laundry, cleaning and pressing of clothing, lodging taxes, or the costs of telegrams or telephone calls.

**Incidental expenses only method.** You can use an optional method (instead of actual cost) for deducting incidental expenses only. The amount of the deduction is \$3 a day for incidental expenses paid or incurred for travel away from home in 2008. You can use this method only if you did not pay or incur any meal expenses. You cannot use this method on any day that you use the standard meal allowance. This method is subject to the proration rules for partial days. See [Travel for days you depart and return](#), later in this chapter.



Federal employees should refer to the Federal Travel Regulations at [www.gsa.gov](http://www.gsa.gov). Click on "Federal Travel Regulation (FTR)" for changes affecting claims for reimbursement of these expenses.

**50% limit may apply.** If you use the standard meal allowance method for meal expenses and you are **not reimbursed** or you are reimbursed under a nonaccountable plan, you can generally deduct only 50% of the standard meal allowance. If you are reimbursed under an accountable plan and you are deducting amounts that are more than your reimbursements, you can deduct only 50% of the excess amount. The **50% limit** is discussed in more detail in chapter 2, and [accountable](#) and [nonaccountable](#) plans are discussed in chapter 6.



There is no optional standard lodging amount similar to the standard meal allowance. Your allowable lodging expense deduction is your actual cost.

**Who can use the standard meal allowance.** You can use the standard meal allowance **whether you are an employee or self-employed**, and whether or not you are reimbursed for your traveling expenses.

**Use of the standard meal allowance for other travel.** You can use the standard meal allowance to figure your meal expenses when you travel in connection with investment and other income-producing property. You can also use it to figure your meal expenses when you travel for qualifying educational purposes. You cannot use the standard meal allowance to figure the cost of your meals when you travel for medical or charitable purposes.

**Amount of standard meal allowance.** The standard meal allowance is the federal M&IE rate. For travel in 2008, the rate for most small localities in the United States is **\$39 a day** from January 1, 2008, through December 31, 2008.

Most major cities and many other localities in the United States are designated as high-cost areas, qualifying for higher standard meal allowances. These rates are listed in [Publication 1542](#), which is available on the Internet at [www.irs.gov](http://www.irs.gov).



You can also find this information (organized by state) on the Internet at [www.gsa.gov](http://www.gsa.gov). Click on "Per Diem Rates," then select "2008" for the period January 1, 2008 – September 30, 2008, and select "2009" for the period October 1, 2008 – December 31, 2008. However, you can apply the rates

in effect before October 1, 2008, for expenses of all travel within the United States for 2008 instead of the updated rates. You must consistently use either the rates for the first 9 months of 2008 or the updated rates for the period of October 1, 2008, through December 31, 2008.

If you travel to more than one location in one day, use the rate in effect for the area where you stop for sleep or rest. If you work in the transportation industry, however, see [Special rate for transportation workers](#), later.

**Standard meal allowance for areas outside the continental United States.** The standard meal allowance rates above do not apply to travel in Alaska, Hawaii, or any other location outside the continental United States. The Department of Defense establishes per diem rates for Alaska, Hawaii, Puerto Rico, American Samoa, Guam, Midway, the Northern Mariana Islands, the U.S. Virgin Islands, Wake Island, and other non-foreign areas outside the continental United States. The Department of State establishes per diem rates for all other foreign areas.



You can access per diem rates for non-foreign areas outside the continental United States at: <http://perdiem.hqda.pentagon.mil/perdiem/perdiemrates.html>. You can access all other foreign per diem rates at: [www.state.gov/travelandbusiness](http://www.state.gov/travelandbusiness).

**Special rate for transportation workers.** You can use a special standard meal allowance if you work in the transportation industry. You are in the transportation industry if your work:

- Directly involves moving people or goods by airplane, barge, bus, ship, train, or truck, and
- Regularly requires you to travel away from home and, during any single trip, usually involves travel to areas eligible for different standard meal allowance rates.

If this applies to you, you can claim a standard meal allowance of \$52 a day (\$58 for travel outside the continental United States) from January 1, 2008, through December 31, 2008.

Using the special rate for transportation workers eliminates the need for you to determine the standard meal allowance for every area where you stop for sleep or rest. If you choose to use the special rate for any trip, you must use the special rate (and not use the regular standard meal allowance rates) for all trips you take that year.

**Travel for days you depart and return.** For both the day you depart for and the day you return from a business trip, you must **prorate** the standard meal allowance (figure a reduced amount for **each** day). You can do so by one of two methods.

- **Method 1:** You can claim  $\frac{3}{4}$  of the standard meal allowance.
- **Method 2:** You can prorate using any method that you consistently apply and that is in accordance with reasonable business practice.

**Example.** Jen is employed in New Orleans as a convention planner. In March, her employer sent her on a 3-day trip to Washington, DC, to

attend a planning seminar. She left her home in New Orleans at 10 a.m. on Wednesday and arrived in Washington, DC, at 5:30 p.m. After spending two nights there, she flew back to New Orleans on Friday and arrived back home at 8:00 p.m. Jen's employer gave her a flat amount to cover her expenses and included it with her wages.

Under *Method 1*, Jen can claim  $2\frac{1}{2}$  days of the standard meal allowance for Washington, DC:  $\frac{3}{4}$  of the daily rate for Wednesday and Friday (the days she departed and returned), and the full daily rate for Thursday.

Under *Method 2*, Jen could also use any method that she applies consistently and that is in accordance with reasonable business practice. For example, she could claim 3 days of the standard meal allowance even though a federal employee would have to use *Method 1* and be limited to only  $2\frac{1}{2}$  days.

## Travel in the United States

The following discussion applies to travel in the United States. For this purpose, the United States includes the 50 states and the District of Columbia. The treatment of your travel expenses depends on how much of your trip was business related and on how much of your trip occurred within the United States. See [Part of Trip Outside the United States](#), later.

### Trip Primarily for Business

You can deduct all of your travel expenses if your trip was entirely business related. If your trip was primarily for business and, while at your business destination, you extended your stay for a vacation, made a personal side trip, or had other personal activities, you can deduct your business-related travel expenses. These expenses include the travel costs of getting to and from your business destination and any business-related expenses at your business destination.

**Example.** You work in Atlanta and take a business trip to New Orleans. On your way home, you stop in Mobile to visit your parents. You spend \$1,920 for the 9 days you are away from home for travel, meals, lodging, and other travel expenses. If you had not stopped in Mobile, you would have been gone only 6 days, and your total cost would have been \$1,620. You can deduct \$1,620 for your trip, including the cost of round-trip transportation to and from New Orleans. The deduction for your meals is subject to the [50% limit on meals](#) mentioned earlier.

### Trip Primarily for Personal Reasons

If your trip was primarily for personal reasons, such as a vacation, the entire cost of the trip is a nondeductible personal expense. However, you can deduct any expenses you have while at your destination that are directly related to your business.

A trip to a resort or on a cruise ship may be a vacation even if the promoter advertises that it is primarily for business. The scheduling of incidental business activities during a trip, such as viewing videotapes or attending lectures dealing

## Examples of Records

Examples of records that show the information you need to keep for different types of expenses are included in this publication as [Table 6-2](#) and [Table 6-3](#). They are part of the illustrated examples shown at the end of chapter 6.

## 6.

## How To Report

This chapter explains where and how to report the expenses discussed in this publication. It discusses reimbursements and how to treat them under accountable and nonaccountable plans. It also explains rules for independent contractors and clients, fee-basis officials, certain performing artists, Armed Forces reservists, and certain disabled employees. The chapter ends with illustrations of how to report travel, entertainment, gift, and car expenses on Forms 2106 and 2106-EZ.

## Where To Report

This section provides general information on where to report the expenses discussed in this publication.

**Self-employed.** You must report your income and expenses on [Schedule C](#) or C-EZ (Form 1040) if you are a sole proprietor, or on Schedule F (Form 1040) if you are a farmer. **You do not use Form 2106 or 2106-EZ.**

If you claim car or truck expenses, you must provide certain information on the use of your vehicle. You provide this information on Schedule C, Schedule C-EZ, or Form 4562.

If you file Schedule C:

- Report **your travel expenses, except meals, on line 24a.**
- Report **your deductible meals (actual cost or standard meal allowance) and entertainment on line 24b.**
- Report your gift expenses and transportation expenses, other than car expenses, on line 27, and
- Report your car expenses on line 9. Complete Part IV of the form unless you have to file Form 4562 for depreciation or amortization.

If you file Schedule C-EZ, report the total of all business expenses on line 2. You can only include 50% of your meals and entertainment in that total. If you include car expenses, you must also complete Part III of the form.

If you file Schedule F:

- Report your car expenses on line 12. Attach Form 4562 and provide information on the use of your car in Part V of Form 4562.

- Report all other business expenses discussed in this publication on line 34. You can only include 50% of your meals and entertainment on that line.

See your forms instructions for more information on how to complete your tax return.

**Both self-employed and an employee.** If you are both self-employed and an employee, you must keep separate records for each business activity. Report your business expenses for self-employment on Schedule C, C-EZ, or F (Form 1040), as discussed earlier. Report your business expenses for your work as an employee on Form 2106 or 2106-EZ, as discussed next.

**Employees.** If you are an employee, you generally must complete Form 2106 to deduct your travel, transportation, and entertainment expenses. However, you can use the shorter Form 2106-EZ instead of Form 2106 if you meet all of the following conditions.

- You are an employee deducting expenses attributable to your job.
- You were not reimbursed by your employer for your expenses (amounts included in box 1 of your Form W-2 are not considered reimbursements).
- If you claim car expenses, you use the standard mileage rate.

For more information on how to report your expenses on Forms 2106 and 2106-EZ, see [Completing Forms 2106 and 2106-EZ](#), later.

**Gifts.** If you did not receive any reimbursements (or the reimbursements were all included in box 1 of your Form W-2), the only business expense you are claiming is for gifts, and the [Special Rules](#) discussed later do not apply to you, do not complete Form 2106 or 2106-EZ. Instead, claim the amount of your deductible gifts directly on line 21 of Schedule A (Form 1040).

**Statutory employees.** If you received a Form W-2 and the "Statutory employee" box in box 13 was checked, report your income and expenses related to that income on Schedule C or C-EZ (Form 1040). Do not complete Form 2106 or 2106-EZ.

Statutory employees include full-time life insurance salespersons, certain agent or commission drivers, traveling salespersons, and certain homeworkers.



*If you are entitled to a reimbursement from your employer but you do not claim it, you cannot claim a deduction for the expenses to which that unclaimed reimbursement applies.*

**Reimbursement for personal expenses.** If your employer reimburses you for nondeductible personal expenses, such as for vacation trips, your employer must report the reimbursement as wage income in box 1 of your Form W-2. You cannot deduct personal expenses.

**Income-producing property.** If you have travel or transportation expenses related to income-producing property, report your deductible expenses on the form appropriate for that activity.

For example, if you have rental real estate income and expenses, report your expenses on Schedule E, Supplemental Income and Loss. See Publication 527, Residential Rental Property, for more information on the rental of real estate. If you have deductible investment-related transportation expenses, report them on Schedule A (Form 1040), line 23.

## Vehicle Provided by Your Employer

If your employer provides you with a car, you may be able to deduct the actual expenses of operating that car for business purposes. The amount you can deduct depends on the amount that your employer included in your income and the business and personal miles you drove during the year. You cannot use the standard mileage rate.

**Value reported on Form W-2.** Your employer can figure and report either the actual value of your personal use of the car or the value of the car as if you used it only for personal purposes (100% income inclusion). Your employer must separately state the amount if 100% of the annual lease value was included in your income. If you are unsure of the amount included in your Form W-2, ask your employer.

**Full value included in your income.** You can deduct the value of the business use of an employer-provided car if your employer reported 100% of the value of the car in your income. On your 2008 Form W-2, the amount of the value will be included in box 1, Wages, tips, other compensation, and box 12.

To claim your expenses, complete Part II, Sections A and C, of Form 2106. Enter your actual expenses on line 23 of Section C and include the entire value of the employer-provided car on line 25. Complete the rest of the form.

**Less than full value included in your income.** If less than the full annual lease value of the car was included on your Form W-2, this means that your Form W-2 only includes the value of your personal use of the car. Do not enter this value on your Form 2106; it is not deductible.

If you paid any actual costs (that your employer did not provide or reimburse you for) to operate the car, you can deduct the business portion of those costs. Examples of costs that you may have are gas, oil, and repairs. Complete Part II, Sections A and C, of Form 2106. Enter your actual costs on line 23 of Section C and leave line 25 blank. Complete the rest of the form.

## Reimbursements

This section explains what to do when you receive an advance or are reimbursed for any of the employee business expenses discussed in this publication.

If you received an advance, allowance, or reimbursement for your expenses, how you report this amount and your expenses depends on whether the reimbursement was paid to you under an accountable plan or a nonaccountable plan.