Travel the world and write it off

Most of a business trip's expenses can be deducted at tax time—as long as you play by Uncle Sam's rules

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April issue, Budget Travel Magazine - The key word is primary. As long as business—say, a convention, client meeting, or professional-organization gathering— is the primary reason for travel, your airfare, lodging, meals, car rental, taxis, and even tips and laundry can all be deducted. Self-employed consultants, independent salespeople, small-business owners, and freelancers of all sorts can regularly write off expenses on business trips. (Unfortunately, these folks are also more likely to get audited.) If your employer already reimburses travel expenses, you're not eligible.

Don't expect the IRS to take your word that the motive for that weekend at Mardi Gras was business, however. If audited, you'll need not only receipts but records of meetings, seminars, and the like. The trip must also be directly related to your business, so a surgeon can't write off a visit to Cabo because he was casually thinking of investing in some condos.

While work may be the main reason for the trip, it doesn't have to be the only reason. The "primary" rule also applies to the workday, and as long as the purpose of your day is business, the entire day's expenses are deductible. You may find plenty of time for lounging on a beach, hitting the golf course, or tossing chips at the roulette tables.

To make sure that you get the most cash back (and that your claims stand up to an audit), be meticulous. Keep receipts, as well as a calendar, notebook, or computer log with a chronological account of what you do. A separate credit card and checking account just for business helps maintain order. "Be prepared to justify every expense," says Jackie Perlman, senior tax-research coordinator for H&R Block in Kansas City, Mo.

Fully deductible

The IRS says "ordinary and necessary" expenses for business are 100 percent deductible, and that includes transportation and lodging as well as incidentals, such as Internet connections, phone bills, and laundry service. If you're driving your own car, the standard reimbursement—which takes into account fuel, upkeep, and depreciation—is 37.5¢ per mile for 2004, upped to 40.5¢ for the 2005 tax year. Think twice before using frequent-flier miles, because you're not allowed to deduct any value when cashing them in. "Use the miles to book personal vacations," suggests Benjamin Bohlmann, a CPA at Mallah Furman & Co. in Miami, "but pay for business tickets because they're tax-deductible." Airline miles and hotel and car-rental rewards points tallied up on business trips are a tax-free perk.

Hotel charges are completely deductible only on days at work or in transit. So if you have appointments on Monday, Wednesday, and Thursday but don't return home until Saturday, the hotel bill for Tuesday and Friday nights is usually on you. There's an exception for weekends and holidays that fall between business days: For example, a schedule of meetings on Thursday, Friday, and

Monday makes Saturday and Sunday expenses deductible because they become de facto business days—even if you work on nothing but your tan.

Partially deductible

Half of the costs of meals and entertainment you incur because of work are deductible, and you've got a choice of either totaling up receipts or using the government-approved allowance, which varies from city to city (from $31 to $46 a day).

Planning a vacation and throwing in a meeting or two does not equal a business trip, according to the IRS's definitions, and different rules apply. Let's say you spend six days in Houston visiting relatives, and on one night meet with clients over dinner. Neither airfare nor hotel would be deductible, though taxis to the restaurant and 50 percent of the meal are legitimate write-offs. "The job of the IRS is to find out, 'Was this person really working or just on holiday?' " says Neil Becourtney, a CPA for J.H. Cohn LLP in Roseland, N.J.

Unless you can prove that friends or family members are employees of your business and necessary for work on the road, their expenses aren't deductible. Still, many business travelers bring family or friends with them on trips, and for good reason. The extra person's meals and airfare can't be written off, but car rentals and hotel rooms—which you'd be paying for anyway—are fair game. (For hotels, you can only deduct the single-occupancy rate.)

Going abroad

The parameters for domestic and overseas trips are basically the same: As long as the primary purpose is business, transit costs, lodging, incidentals, and 50 percent of meals and entertainment can be deducted if they're work-related. But the rules for foreign travel are applied slightly differently. You can deduct transportation costs in full if the trip lasts seven days or less (counting the day you return but not the day you leave home), or if you're gone longer than a week and business occupies at least 75 percent of your workdays. If you don't meet either of these requirements, you'll have to figure out which transportation you can write off based on the proportion of the trip dedicated to work. On another note, the government sets a $2,000 annual limit for deductions on cruises, but only on ships that are registered in the U.S. (and the vast majority aren't).

In general, the IRS looks more closely when you deduct expenses incurred outside the country, so prepare a good defense as to why the trip is necessary. For example, an art professor can't expect to write off her summer in Europe, even if she's hitting a few museums that'll liven up her lectures.

For more advice, consult irs.gov, particularly Publication 463 on Travel, Entertainment, Gift and Car Expenses, or talk to a tax accountant.