



Get help at the show — from the tax man

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Feature

Tips for deducting travel as a business expense.

by: Phillip M. Perry

Trade shows like this month's WQA Aquatech USA in Chicago are great for finding new products and making profitable contacts. But there's a downside: Going to a show can get expensive. Plane fares, car rentals, hotel bills and meals — they can add up to big money.

What to do?

You can reduce a trade show's impact on your bottom line by deducting all appropriate travel costs as business expenses on your income taxes. Take care, though: You must take only those tax deductions allowed by law.

"The IRS is always looking for excessive or unsubstantiated deductions when it comes to travel expenses," cautions Tom Ochsenschlager, vice president of taxation at The American Institute of Certified Public Accountants (AICPA), based in Washington, DC. "It's the low-hanging fruit for auditors." Disallowed deductions, of course, can be expensive in terms of penalties and interest.

Not all shows qualify

Before you can deduct any expenses related to attending a trade show, you must first determine if the event qualifies for tax deductibility. How? Consider the topic of the show and your purpose in attending.

"If a trade show serves a legitimate business purpose, then the related travel expenses are tax deductible," says Patrick Anderson, principal of Anderson Economic Group, Lansing, MI. Many shows, of course, meet this basic criterion — for a water treatment business, WQA Aquatech USA or regional WQA shows certainly would.

But others may be clearly over the line. "If you are going to a trade show devoted to one of your hobbies, the expenses will be unlikely to qualify," says Anderson.

But how about those shows that fall into a gray area? These often deal with topics that don't directly relate to your current operations but may do so in the future as you expand your business interests. In such cases you must use your best judgment and consult your tax advisor for guidance.

"If a trade show is on a topic that might help the attendee make some money on the side, that person should expect some scrutiny from the IRS," says Anderson. He offers this example: "Not every person with a 401K ... would qualify for deductions for expenses incurred attending an investment seminar." Indeed, expenses incurred while attending investment seminars are very often deemed not deductible.

Once you are sure that your trade show is business-related, you are able to deduct a wide variety of expenses, from airline fares to car rentals to hotels and meals. For a complete list, see "What can I deduct?" (see sidebar).

Following are some fine points to keep in mind when you take your deductions.

Meal expenses

You have to eat when you travel — and that usually generates expensive restaurant bills. Special rules apply to these expenses.

"You can deduct meals when you are traveling overnight away from home or if the meal is business-related," says Andrew Benedict, tax manager at RGA Advisors, based in New York City. However, only 50 percent of the meal cost is deductible. The IRS's reasoning is that the other half represents an expense you would have even if you were not on a business trip.

And take it easy on those upscale restaurants. "You cannot deduct meals if the expenses are lavish or extravagant," says Benedict. "They must be reasonable, even though there is no fixed dollar amount established [in the tax code]."

No deduction is allowable for meals unless you substantiate the expense by adequate records or sufficient evidence, Benedict cautions. The following information should be kept:

- The dollar amount
- The time and place
- The business purpose.

Per diem rates

Itemizing expenses while traveling can be a chore. You can save yourself some effort by opting for standardized deductions, also called "per diems." These are available in two categories. The first is lodging. The second is meals and incidental expenses (M&IE).

"If you are taking a lot of employees to the show, using the per diem expense can simplify your record keeping," says Abe Schneier, technical manager at the AICPA. "It also helps you control expenses, since you can tell your employees what the per diem rate is and ask them to try to limit their budgets to that amount."

There is a downside to per diems.

"The per diem is often either too high or too low," says Anderson. "So you end up either over- or under-reimbursing your employees." In any case, using the per diem method does not relieve you of the task of maintaining supporting documentation: You still need to keep records showing the time, place, and business purpose of your travel.

Per diem rates are revised periodically and are delineated in IRS Publication 1542, "Per Diem Rates (for Travel Within the Continental United States)." For the latest edition of that document, visit the Web site of the Internal Revenue Service at www.irs.gov and enter "Publication 1542" in the search box.

Traveling spouses

How about spouses or other individuals who are traveling to the trade show but who do not normally have a working relationship with your business?

"Generally you cannot deduct travel expenses of a spouse who does not play a substantial business role," says Anderson. "This is a common area of abuse and one at which the IRS looks closely."

And part-time workers who go along? Their expenses are deductible if their presence is needed [in] your business. "The regulations are no different for full-time or part-time employees," says Anderson. "Just remember to go back to the fundamental rule: Expenses are only deductible if the travel serves a business purpose."

Personal time

Combining pleasure with business is a time-honored custom. But how does that affect how much you can deduct at tax time?

"If you are traveling in the United States and take some vacation time during the trip, the amount that is deductible will be affected," says Benedict. "If you decide to take a few days for some personal time, you cannot deduct the expenses related to your personal side trip. The expenses to and from the business destination are still deductible, as well as the business expenses associated with the trip."

And what if the trip is personal in nature and you just happen to do some business on the trip? "The travel to and from the destination is not deductible, but the expense associated with the business portion of the trip is deductible," says Benedict.

Careful records

Knowing which travel expenses are deductible is a great help at income tax time. Your job's not done, though, when you stuff a handful of hotel and car rental receipts into a storage envelope. You must also properly document your expenses.

"The IRS typically requires contemporaneous records for expenses related to travel, meals and entertainment," says Benedict. "For each day's business expense, you need to record the business purpose, the time, and the place in some kind of log. Such notation should be made at or close to the time you actually incurred the expense."

Too often, documentation is inadequate or misplaced, says Benedict. In such cases the business owner is faced with a credibility problem. "The biggest mistake business owners make is not making an adequate record the same week the expenses were incurred, and then trying to reconstruct the events a year later."

Once you have made your records, store them in a safe place where you can access them easily if the IRS ever questions your travel expenses.

Despite the costs of travel, you will likely continue to attend trade shows for their many business benefits. As we've shown here, the bottom-line impact of your show expenses can be mitigated by taking all of your allowable tax deductions.

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See also his article with advice about profitable follow-up of a trade show visit, "After the trade show — then what?" in the March 2008 issue of Water Technology®.