Abstract: With conference calls and Web meetings increasingly prevalent, business travel isn't what it used to be. But many companies still send employees out on the road. This article describes important concepts related to travel, such as travel expenses as a fringe benefit, establishing an accountable plan and qualifying for business travel status.

Still important: The tax impact of business travel

With conference calls and Web meetings increasingly prevalent, business travel isn't what it used to be. But if your company is still sending employees out on the road, it remains important to understand the tax ramifications.

Fringe benefits

Generally, for federal tax purposes, a company may deduct all ordinary and necessary expenses paid or incurred during the tax year in carrying on any trade or business. This includes travel expenses that aren't deemed lavish or extravagant.

For employees, travel expenses are typically considered a "working condition fringe benefit" and, therefore, not included in gross income. Working condition fringe benefits are any property or service provided to an employee to the extent that, if he or she paid for the property or service, it would be tax-deductible.

Accountable plan

Under the Internal Revenue Code, an advance or reimbursement for travel expenses made to an employee under an "accountable plan" is deductible by the employer and not subject to FICA and income tax withholding. In general, an advance or reimbursement is treated as made under an accountable plan if an employee:

- Receives the advance or reimbursement for a deductible business expense paid or incurred while performing services for his or her employer,
- Accounts for the expense to his employer within a reasonable period of time and in an adequate manner, and
- Returns any excess reimbursement or allowance within a reasonable period of time.

By contrast, an advance or reimbursement made under a "nonaccountable plan" isn't considered a working condition fringe benefit — it's treated as compensation. Thus, the amount is fully taxable to the employee, and subject to FICA and income tax withholding by the employer.

Travel status

Although business transportation — going from one place to another without an overnight stay — is deductible, attaining "business travel status" fully opens the door to substantial tax benefits. Under business travel status, the entire cost of lodging and incidental expenses, and 50% of meal expenses, is generally deductible by the employer that pays the bill. What's more, those amounts don't equate to any taxable income for employees who, as mentioned, are reimbursed under an accountable plan.

So how does a business trip qualify for business travel status? It must involve overnight travel; an employee traveling away from his or her tax home; and a temporary trip undertaken solely, or primarily, for ordinary and necessary business reasons.

Bear in mind that “overnight” travel doesn’t necessarily mean an employee must be away from dusk till dawn. Any trip that’s long enough to require sleep or rest to enable the taxpayer to continue working is considered “overnight.”

Furthermore, there’s an exception under which local, “nonlavish” lodging expenses incurred while not away from home overnight on business may be deductible if all facts and circumstances so indicate. One factor specified in the regs is whether the employee incurs the expense because of a bona fide employment condition or requirement.

Crucial details

Even if your company has pumped the brakes on business trips, knowing the tax rules can save you valuable dollars on those “must go” travel engagements. We can help you with the crucial details — and particularly in setting up an accountable plan if you don’t already have one.