

## New Rules for Business Travel Deductions

Business travel is still tax-deductible, under the Tax Cuts and Jobs Act of 2017 (TCJA), but there is a major difference now. Relatively few individuals will be able to claim such deductions; for the most part, deductions can be taken only at the company level.

How is this different from prior law? Before the TCJA took effect in 2018, people who itemized deductions could deduct miscellaneous itemized deductions that exceeded 2% of their adjusted gross income (AGI). Among the allowable miscellaneous deductions were unreimbursed employee business expenses.

**Example:** In 2017, Al Coleman was an employee of ABC Corp. He traveled extensively as part of his job, with no reimbursement from ABC. On his 2017 tax return, Al added up all his miscellaneous itemized deductions, including his business travel expenses, and deducted the amount over 2% of AGI.

Under the TCJA, miscellaneous itemized deductions no longer exist. No matter how much Al spends on business travel as an employee now, and how that compares with his AGI, there is no place on a tax return to deduct unreimbursed employee business expenses.

### According to Plan

Some individuals can still deduct business travel expenses. That includes self-employed individuals filing as sole proprietors and partners who are not reimbursed by their partnership. In those situations, business travel is another expense item determining annual profit or loss.

Conversely, if you are an employee, you may get no tax benefit from travel outlays that are not reimbursed by your employer. Your best tactic then would be to request reimbursement by your company — specifically under an accountable plan. (See Trusted advice.) Then, you would get cash back without having to report taxable income, and the company would get a business deduction.

If a company's reimbursement plan is deemed non-accountable, the tax consequences can be severe. The amount reimbursed will be subject to income tax as well as payroll taxes, if applicable.

### Entertainment Eliminated

The other major change to the taxation of business travel under the TCJA is the elimination of deductions for business entertainment. Whether you are at home or away, whether you're self-employed or on a company payroll, entertainment deductions have been abolished. You can still take clients or prospects to games, plays, and concerts, but no tax benefit will result.

Fortunately, a straightforward business meal is still deductible, in part. Meal deductions are 50% of the total cost, including beverages, tax, and tip. That's true whether you're picking up the tab for a meal with a business contact or just dropping by a diner for dinner while you're on the road.

Besides meals away from home, many other outlays can qualify as deductible business travel expenses. That includes air or rail travel, plus any limo charges for getting to and from an airport or railroad station. Other acceptable costs might be baggage charges, reasonable tips, and hotel bills if you're away from home with a valid purpose.

As has been true in the past, commuting to and from work is not considered deductible business travel. However, using your personal vehicle to make business calls can qualify for deductions. To calculate the amount, you generally can either track your actual costs or use a standard rate. In 2019, the standard mileage rate for the use of a car, van, pickup truck, or panel truck is 58 cents per business mile.

### **Trusted Advice**

#### **Accountable Plans**

For an employer's reimbursement arrangement to be an accountable plan, it must meet the following requirements:

- Reimbursed expenses must have a business connection. The employee must have paid or incurred the expenses while performing services for the employer.
- The employee must adequately account to the employer for these business expenses within a reasonable amount of time.
- The employee must return any excess reimbursement or allowance within a reasonable period of time.

Other conditions may apply. Our office can help your company create and maintain an accountable plan.