

## MONEY-WISE TRAVEL

# TAX-DEDUCTIBLE TRAVEL

*You can write off the costs of trips taken primarily for business, including continuing medical education.*

BY DONALD JAY KORN *Contributing Editor*

**N**ot every trip is a vacation. Often, travel involves some activity related to your professional practice. If that's the case, some of your expenses may be tax-deductible, if certain conditions are met. "A physician's travel expenses may meet the tests for deductibility," says Arthur

Unger, co-director of the health-care division at Mallah Furman, an accounting firm in Miami. "Most often, this situation arises when a doctor travels to a professional conference."

In those circumstances, your travel costs will be deductible if the trip was primarily for business, which can include continuing education. You can deduct your airfare, airport limo, hotel costs, meals, and so on. "The usual procedure," says Mr. Unger, "is for the costs to be paid by the professional practice, which will take the deduction." (Entertainment expenses, including meal costs, are only 50 percent deductible, under current tax law.) If your practice pays for your travel expenses but the outlays are not truly deductible, you'll pick up taxable income. The same is true if your practice reimburses you for non-deductible expenses.

When you prepare your personal or professional practice's tax return, you can deduct anything you wish—as long as you're ready to defend those deductions, in case you're audited. "When a physician's return is audited, substantial travel expenses are likely to be examined, so you need to be ready to justify those deductions," says Mr. Unger.

To reduce the threat of disallowance, you must document each trip. Mr. Unger suggests keeping a copy of your conference registration, the agenda, etc. As long as you can show that your primary purpose was business-related, your travel costs will be deductible.

What if a trip was not primarily for business but some aspects were related to your practice? In that case, you probably can take a partial deduction. Mr. Unger mentions a court case involving a doctor who went on an eight-day trip to a conference in Acapulco, sponsored by the physician's professional society. The doctor's spouse, who was the professional corporation's secretary and trustee of the pension plan, went along.

"The doctor and his spouse spent a total of 16 hours in seminars," says Mr. Unger, "or two hours a day. Half of the seminars were on personal financial planning and half were on ERISA, the Federal tax law regarding pension plans."

Unfortunately, the tax law prohibits taking deductions for at-

tending investment seminars. "The ERISA seminars were business-related but not enough time was spent at those sessions to make them the principal purpose of the trip," says Mr. Unger. "As a result, only about 20 percent of the costs of the trip were deductible."

## Spouse's Expenses

As the above example indicates, physicians often travel to conferences with spouses. "In order for the spouse's expenses to be deductible," says Mr. Unger, "three conditions must be met. First, the spouse must be a bona fide employee of the medical practice."

That is, the spouse must be on the payroll, and payroll taxes must be paid. "Generally," says Mr. Unger, "it doesn't make sense to put your spouse on the payroll just to be able to deduct travel costs. The payroll taxes likely will be greater than the tax savings."

The second and third conditions, according to Mr. Unger, are that your spouse have a genuine business purpose for attending the meeting and that the spouse's expenses would be deductible anyway, on a solo trip. "What frequently happens," says Mr. Unger, "is that medical meetings will have separate tracks. There will be continuing medical education for the doctor and a series of sessions on coding, billing, collections and so

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**Be sure to organize your business-travel paperwork after each trip, so you'll be able to locate your documentation easily.**

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# Tax-Deductible Business Travel

► *Continued from preceding page on, for the spouses.*

You may be entitled to some tax relief even if your spouse's expenses are not deductible. "You can claim a deduction for lodging based on the single-rate cost of similar accommodations for you, not half the double rate you actually paid," says Julian Block, an attorney in Larchmont, N.Y.

Suppose you and your spouse go to a conference, where the two of you stay at a hotel that charges \$200 for a double and \$180 for a single room. Besides a deduction for your travel costs, you can claim a per-day deduction for your hotel room of \$180, rather than just \$100, which is half of \$200. "To

help safeguard your deduction in case the IRS questions it," says Mr. Block, "remember to have the hotel bill note the single rate, or get a rate sheet."

Similarly, says Mr. Block, some of your spouse's meals might qualify as deductible business meals. At the conference, you might dine with a colleague and the colleague's spouse. "Because of the presence of the colleague's spouse, your spouse attends on a business basis," says Mr. Block. Thus, the total you spend on the meal is 50 percent deductible.

Whether or not you travel with your spouse, you must show that the primary purpose of your trip is business-related in order to get a

full deduction for your travel costs. If you go for a four-day conference and extend your trip an extra day or two, that probably won't be a problem.

On the other hand, if you go to a two-day meeting but wind up spending 10 days in a resort area, the IRS will likely conclude that the primary purpose of the trip was not business. In this situation, your transportation costs might be prorated between business and personal expenses so that only 20 percent (two business days of a 10-day trip) of your travel costs would be deductible.

Mr. Unger points out that weekends might be "free days," for this calculation. That is, if you stay over a Saturday night to get a much cheaper airfare, Saturday will count as a business rather than a personal day, even though you spend the day relaxing. Even better, if you schedule business-related activities for Friday and Monday, your entire weekend should be treated as deductible business days because there's no reason for you to travel back and forth.

Other provisions of the tax law also can affect your travel-related deductions. "When you go outside the U.S., a special one-week rule applies," says Mr. Unger. If a business trip lasts one week or less, you can automatically deduct all your transportation costs, as long as the main reason for your trip was for business. There's no need to show that you spent more days on business than on vacationing.

## SPECIAL RULES ON CRUISES

The IRS has a separate set of rules that apply to deductions for business meetings on cruise ships. In order to deduct cruise expenses, all of the following must apply:

- The convention must be directly related to your medical practice.
- The ship must be registered in the U.S.
- All of the cruise ports must be located in the U.S. or within its possessions.

Additionally, you must attach a signed statement to your tax return that details the length of the trip, the number of hours each day that you devoted to scheduled business activities and an itinerary. You also must attach a statement signed by an officer of the group sponsoring the convention that includes similar information.

"If you meet all these requirements, you may deduct the expenses of attending a seminar on a cruise ship, up to \$2,000 per person per year," says Arthur Unger, co-director of the healthcare division at Mallah Furman and Co., an accounting firm in Miami.