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June 2004 - Vacation Tax Planning: Part 2.

My last article discussed how to take advantage of business seminars and conventions to help with family vacation expenses with a focus on how to make all or part of those expenses tax deductible as legitimate business items. It also went into detail on how to legally deduct related transportation expenses. This article will continue with information about lodging, meals, and activities.

Hotel and meal expenses for each business day of your trip are also deductible, including the transportation days to and from the convention location, as long as the overall trip qualified for business purposes. This can allow additional flexibility in making the vacation expenses of family and friends who accompany you on the trip effectively deductible. For example, suppose you pay \$100 per day for a hotel room, and that you would have paid \$90 per day for the room if you had traveled alone. In this case you could take a business deduction for the \$90, leaving only \$10 as a non-deductible personal expense. If you stay at one of the many hotels that allow others who accompany you to share your room at no extra cost, you would be able to claim the entire cost of the room as a business deduction!

Meals can be claimed in your choice of two ways. One is to deduct the actual cost of meals purchased for you, with the meal cost for non-business travelers in your party then becoming a non-deductible personal expense. The other is to deduct the IRS per diem meal and incidentals allowance, which ranges from \$31 to \$47 per day, depending on location. If you claim the per diem rate, you do not have to keep receipts for food or meals on the trip. If you spend less on your meals than the per diem rate, you can effectively deduct part of the meals for those traveling with you.

Once you have met the requirement to conduct business over half a day (remember this is considered four hours), you can use the rest of each day in recreational activities of your choice. These can include golf, tennis, theater, scuba diving, amusement parks, spectator sports, fishing, cycling, hiking, and most anything else you can think of. If these activities are purely for pleasure, then you normally can't deduct their expense on your tax return.

There are two exceptions that would make these activities deductible that you might want to consider. One is client entertainment. You are not limited to deducting meals as a way to discuss business in a more relaxed setting with clients, vendors, or prospects. Golf and sporting events are well known alternatives, and the suggestions in the last paragraph can also be used. Keep a brief record on the receipt you receive for the cost of the activity. This brief record should include the names of the people with you and a few words describing the business purpose of the discussion that took place at the activity. Please use caution with this approach. You will have a hard time convincing a tax auditor that your golf game had a business purpose if you go with the same foursome every time. Mix it up. Do your activities with a variety of people, it is probably better for business anyway. And when you go with your favorites, if occasionally business is discussed, then deduct the cost as a business expense. The other times you go with them, admit it is personal and don't deduct it. There is a lot you can do if you don't try to get greedy about it.

The second way to make recreational activities tax deductible is to develop a business to do them. For example, if you love mountain biking, you could create a business that creates descriptions of where to bike with pictures and sell them in cycling stores and over the internet. Go to new places, and all the expenses are deductible as research for your next article. This approach, with a little original thought, can be applied to just about any activity you enjoy!

Important Note!

The information in this article is intended to inform you of some of the financial opportunities provided in the tax laws or elsewhere. It is not intended to give you specific advice for your personal situation. If you need such advice, please contact a qualified professional! Please call or e-mail me (doug@accuteksolutions.com) for an initial consultation to discuss your personal situation and how the tax laws might benefit you. Your first 30-minute visit is free to let you sample what we can do for you at no cost or obligation. We also invite you to submit questions you'd like to have answered in a future article!

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