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Ken Berry • Aug. 26, 2014

Map Out Deductions for Foreign Business Travel

[This is part of a [series of articles on protecting deductions](#) for travel and entertainment (T&E) expenses.]

Previously, we discussed several of the key tax rules pertaining to deductions for business travel within the country. In this article, we'll focus on trips from the U.S. to foreign soil.

As with domestic travel (i.e., travel within the 50 U.S. states and the District of Columbia), you can deduct all of your travel expenses if the trip is entirely for business purposes. Otherwise, you're entitled to travel deductions only if the primary purpose of the trip is business-related. Again, the days spent on business versus pleasure are critical, although the IRS is lenient in treating certain days as "business days."

But there are few extra tax wrinkles to contend with when you travel abroad on business. For instance, your roundtrip airfare is completely deductible only if you qualify under one of these four exceptions:

- **Exception 1.** You did not have substantial control over arranging the trip abroad. The IRS says you don't have substantial control over your trip if you're an employee who was reimbursed or paid a travel expense allowance and are not a

10%-or-more owner or you're not a managing executive. Self-employeds generally

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If you don't meet one of these four tests, you must allocate your transportation expenses between the business portion and the non-business portion of your trip abroad, based on the ratio of business days to total days. Note that the favorable rules regarding weekends, travel days and stand-by days explained in the article on domestic travel also apply here.

As you can imagine, some creative scheduling can avoid any dire tax consequences. For example, if you can shave one day off a weeklong trip, you may qualify under the third exception. Or it might be easier to ensure that you will spend less than 25% of the time on personal matters so you meet the requirement for the fourth exception.

Suppose that part of the trip is inside the U.S. and part is outside the country. In this case, the travel rules are applied separately for each leg of the trip. Travel outside the U.S. doesn't include travel from one point in the U.S. to another point in the country. The IRS provides the following example in Pub. 463 (Travel, Entertainment, Gift and Car Expenses).

"You fly from New York to Puerto Rico with a scheduled stop in Miami. You return to New York nonstop. The flight from New York to Miami is in the United States, so only the flight from Miami to Puerto Rico is outside the United States. Because there are no scheduled stops between Puerto Rico and New York, all of the return trip is outside the United States."

Finally, be aware that other special rules affecting business travel deductions, such as the 50% limit on business-related entertainment and meal expenses, may apply. Because the IRS often targets T&E deductions, diligent recordkeeping remains a must. Clients may wrongfully assume that foreign business travel is fully deductible, so advise them to follow the strict letter of the law.

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