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convention at a lush tropical paradise this winter. It's hard to pass up and your client may jump at the opportunity. After the early presentations and round-table discussions,

Ken Berry, JD • Sep. 18, 2014



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

Suppose one of your clients receives a postcard or email heralding a business convention at a lush tropical paradise this winter. It's hard to pass up and your client

may jump at the opportunity. After the early presentations and round-table

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100 percent of your travel expenses — including round-trip airfare, cab fare back and forth from the hotel and lodging – plus 50 percent of your business-related meals and entertainment. If your employer doesn't reimburse you, the convention expenses are deducted as miscellaneous expenses, subject to the usual 2%-of-AGI floor.

However, if the convention takes place outside the North American area, you must also satisfy a “reasonableness” test. To wit, it must be as reasonable to hold the convention to be held outside the North American area as within it. This prevents you from taking deductions for a vacation abroad dressed up in the guise of a convention. If you can't meet this test – no deductions.

The [IRS](#) periodically updates the countries in the “North American area” and the tax law boundaries might be broader than you think. Besides the most obvious – the United States and Puerto Rico, Canada and Mexico — the latest list found in Pub. 463 (Travel, Entertainment & Gift Expenses) includes, in alphabetical order, the following: American Samoa, Antigua and Barbuda, Aruba, the Bahamas, Baker Island, Barbados, Bermuda, Costa Rica, Dominica, the Dominican Republic, Grenada, Guam, Guyana, Honduras, Howland Island, Jamaica, Jarvis Island, Johnston Island, Kingman Reef, the Marshall Islands, Micronesia, the Midway Island, Netherlands Antilles, Northern Mariana Islands, Palau, Palmyra Atoll, Panama, Trinidad and Tobago, the U.S. Virgin Islands and Wake Island.

If the convention isn't held within one of these countries, the IRS says it will take the following factors into account to determine if it was reasonable to hold the meeting outside the North American area as within it.

- The purpose of the meeting and the activities taking place at the meeting.
- The purposes and activities of the sponsoring organizations or groups.
- The homes of the active members of the sponsoring organizations and the places at which other meetings of the sponsoring organizations or groups have been or

will be held.

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Cruise Away with Deductions

The tax rules for conventions aboard a cruise ship are slightly different than the regular rules. These three requirements must be met:

1. The convention must be directly related to the active conduct of your business.
2. The cruise ship must be a vessel registered in the U.S.
3. All of the cruise ship's ports of call must be located in the U.S. (or its possessions).

If you meet these requirements and provide supporting documentation, you can deduct up to \$2,000 annually for attending a convention on a cruise ship (maximum of \$4,000 on a joint return).

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