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ACCOUNTING

IRS Issues New Per Diem Rates for 2016

In addition to the standard rates for specific destinations, certain high-cost areas are specified. All the other destinations are treated as low-cost areas if the high-low alternative is used.

Sep. 20, 2015



One of the sure signs that autumn is coming, aside from the leaves on the trees turning colors, is the annual IRS notice on per diem rates. These are the simplified rates that employers may use to reimburse employees for business travel. The per diem rates are updated each year in anticipation of the federal government's fiscal year beginning on October 1 and ending on September 30 of the following year.

Accordingly, new IRS Notice 2015-63, issued just a few days before the September Equinox, applies to travel expenses incurred during Fiscal Year (FY) 2016. Under this Notice, the rate for certain "high-cost areas" in the continental U.S. increased by \$16, while the other areas went up by \$13. However, an employer may continue to use the FY 2015 rates for the remainder of the calendar year if it chooses.

Here's the lowdown: The Government Services Administration (GSA) sets its applicable per diem rates for employees traveling to destinations in the 48 states of the continental U.S and the District of Columbia (the "CONUS rates"); for areas outside the continental United States (Hawaii, Puerto Rico and U.S. possessions (the "OCONUS rates"); and for foreign countries. Although these GSA rates are furnished for government employees, private employers are permitted to use them, too. Thus, your clients may be able to avoid many of the recordkeeping hassles that usually accompany business travel.

In addition to the standard rates for specific destinations, certain high-cost areas are specified. All the other destinations are treated as low-cost areas if the high-low alternative is used.

For FY 2016, the per diem rate for high-cost areas is \$275, (up from \$259 in FY 2015), consisting of \$207 for lodging and \$68 for meals and incidental expenses (M&IE). The per-diem for all other localities is \$185 (up from \$172 in FY 2015), consisting of \$128 for lodging and \$57 for M&IE.

Although most major metropolitan centers remain as high-cost areas every year, invariably there are several modifications to the list. For FY 2016, the changes include the following:

- Mammoth Lakes, California; Grand Lake, Colorado; Silverthorne/Breckenridge, Colorado; Traverse City/Leland, Michigan; Hershey, Pennsylvania; Wallops Island, Virginia were added to the list.
- The durations as a designated high-cost area for Napa, California; Telluride, Colorado; Miami, Florida; Martha's Vineyard, Massachusetts; Nantucket, Massachusetts; Jamestown/Middletown/Newport, Rhode Island; Charleston, South Carolina; Jackson/Pinedale, Wyoming were modified.
- Sedona, Arizona; Santa Cruz, California; New Orleans, Louisiana; Baltimore City, Maryland; Cambridge/St. Michaels, Maryland; Glendive/Sidney, Montana; Conway, New Hampshire; Glens Falls, New York; Tarrytown/White Plains/New Rochelle, New York; Kill Devil, North Carolina; Williston, North Carolina were removed from the list.

Other special rules may apply. For example, instead of using actual expenses to deduct incidental expenses when traveling on business, employees and self-employed individuals who don't have meal expenses during a calendar day, or part of a day, may deduct \$5 for each day, or part of a day, away from home during FY 2016

(the same as in FY 2015). Also, the M&IE rates for taxpayers in the transportation industry are \$63 within the CONUS area and \$68 outside it.

To read Notice 2015-63 in its entirety, go to <http://www.irs.gov/pub/irs-drop/n-15-63.pdf>.

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