

TRADE SHOW TAX DEDUCTIONS

How to cut the costs of travel and lodging

By Phillip M. Perry

Editor's note: With Expo/Fencetech and tax day around the corner, this article by award-winning business journalist Phil Perry is perfectly timed for business owners and attending dealers.

Learn which expenses qualify for tax deductions (and which don't!), and what steps you should take before and during the show.

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If you attend trade shows on a regular basis, you've probably noticed that travel costs keep going up. Sending several people to an event can result in a serious hit to your bottom line.

Luckily, Uncle Sam allows you to soften the financial blow by deducting your travel expenses for any legitimate show on your income tax return. And what qualifies as legitimate expenses? The answer is basically that the event must relate directly to your business.

"As long as you are expecting to generate business from the trade show, then expenses for attending are legitimate deductions," said Richard R. Rhodes, an enrolled agent with Hinckley Tax Service, Medina, Ohio. "Even if you do not generate revenue directly from the event, you might be anticipating doing business in the future with someone you have networked with."

Gather supporting materials

You can take specific steps to legitimize your trip for tax purposes. "The IRS wants to know the intent behind your travel," said Suzette Flemming, president of Flemming Business Services in Great Falls, Mont. "Take notes that support the business nature of your trip. Whom did you see? What subjects did you discuss? How did activities during your trip support your operations?"

Retain any materials, such as show badges or seminar workbooks, that help prove you were actually at the event, said Flemming. Other helpful materials would be conference agendas with business-oriented sessions, a list of exhibitors who serve your organization, a catalog of relevant seminars (mark the ones you attended), and business cards and vendor brochures.

Know what you can deduct

Here is an important caveat: The ideas in this article are intended to provide you with initial guidance. You should always confer with qualified legal and accounting professionals to make sure that you deduct expenses properly.

So what are some deductible expenses? Actual transportation costs are the most obvious. They can include travel by airplane, train, bus, or automobile. Taxi or hired car travel during the trade show visit is also deductible. So are baggage costs, tips, and what the IRS calls "ordinary and necessary expenses related to your business travel." These might include rental fees for computers or other equipment.

The IRS provides extensive guidance on the deduction of expenses at www.irs.gov. In their "Travel, Gift, and Car Expenses" Publication 463 (www.irs.gov/pub/irs-pdf/p463.pdf), you

will find a complete list of deductible items. Refer to Table 1-1 on page 5 for more details. Additional information is also available under the "Business Travel Expenses" topic at www.irs.gov/taxtopics/tc511.

Food and entertainment

There are two special cases worth mentioning when it comes to allowable deductions. Meals are only 50% deductible, and their costs are not deductible at all if the trade show is close to home. If your travel requires an overnight stay, then you can still deduct the 50%.

The IRS outlines this information in "Travel, Gift, and Car Expenses." The publication states, "You can deduct the cost of meals if it is necessary for you to stop for substantial sleep or rest to properly perform your duties while traveling away from home on business."

Second, the 2017 Tax Cuts and Jobs Act (TCJA) eliminated the deductibility of entertainment—an expense commonly encountered by businesspeople attending trade shows.

"Loss of the entertainment deduction has hit many businesses pretty hard," said Flemming. "Some are rethinking how they court clients. You need to look at your return on investment," said Flemming. "Does the expense result in more business because it encourages customers to return?"

How about your own business: Should you still entertain customers even though you cannot deduct the bill?

Keep careful records

Despite the elimination of the entertainment deduction, there are still many legitimate deductions available to business travelers.

And while they certainly soften travel's bottom-line impact, the system only works if you record and retain the requisite backup documentation.

"Travel expenses, especially those for meals, are very often low-hanging fruit for auditors," said Rhodes. "That's because many people fail to keep adequate records."

If your paperwork does not support your deductions, they can be taken away. In addition to the increased taxes that will result, there may also be penalties and interest payments.

So how can you track your expenses in a way that will satisfy the authorities? The tried and true medium is paper—and many people still keep folders bulging with receipts. But with the arrival of the digital age, things can be a bit easier—at least for anyone comfortable with technology.

"Smartphone apps are especially valuable for keeping receipts of your meals," said David Cawley, Partner and Certified Valuation Analyst at Fraim, Cawley & Company, CPAs, Roanoke, Va.

"You can just take pictures of your receipts and store them in a database." Alternatively, you can have vendors email receipts to your smartphone. Then file the emails in a folder that is easier to access—and to back up—than faded paper files. (For computer programs that can help, see the sidebar, "Apps That Track Expenses.")

Don't throw that away!

Once you have your records in hand, hang onto them. "The IRS can go back three years when auditing your returns," said Flemming. "If they find anything, they can go even further back than that. So we recommend keeping documentation for seven years, which is as far back as the IRS can go."

When it comes to state law, Flemming cautions, the rules can be more onerous. Montana, for example, can go back 10 years. "Find out what the rules are in your own state, because each one is different."

Bonus tip: "Consider charging all of your business expenses on a dedicated credit card," said Cawley. "Then you'll have a permanent record of where you went and how much you spent." And that credit card's statements will provide an easily accessible journal of your business activities.

Consider per diem rates

Does collecting meal receipts—digital or otherwise—seem like a hassle? Ask your accountant if you are eligible to utilize "per diem" rates, which are daily cash amounts that are set by the government.

"Each year the IRS comes out with a per diem rate for each geographic area," said Cawley. "The rule is that you can either deduct your actual expenses in terms of meals and incidentals or just use the per diem rate, based on how many days you are there. You should track both in tandem, then use whichever number is higher. This can be really handy in high per diem cities."

The per diem option is often overlooked by business travelers. "Many people will deliberately keep their meal expenses low, because they are on a budget," said Cawley. "But then they forget that they have a right under the IRS code to take the higher per diem rate. As a result, they end up not getting their higher deduction."

Driving to the show?

Are you planning to use your personal car to travel to the show? If so, you must decide whether to use the standard mileage rate or keep track of your actual expenses. The decision depends on how good of a record keeper you are and how much hassle you want to put up with. Sometimes the standard deduction is the easier option.

Differentiate personal time

What if you spend some vacation or personal time during your trip? How does that affect the deductibility of your expenses? An excerpt from IRS document 463 states, "You can deduct all of your travel expenses if your trip was entirely business-related. If your trip was primarily for business and, while at your business destination, you extended your stay for a vacation, made a personal side trip, or had other personal activities, you can deduct only your business-related travel expenses."

It's important to keep careful records about your journey, allocating correctly between business and personal time. "My overall tip is to be truthful," said Catherine Raker, an accountant with Cendrowski Corporate Advisors, Chicago, Ill. "If it's really a personal trip and you do some business-related activities, don't write the whole trip off as a business expense."

Expenses that are shared for business and vacation can fall into a grey area, according to Cawley. "Your airline fare might be disallowed if you spend two days of your trip on business and five days on vacation. On the other hand, your hotel bill for the specific two business days, and other direct expenses for the business portion of your trip, would still be deductible."

Personal time often means the presence of a spouse—and expenses related to that individual's travel can complicate record keeping. Ordinarily, spouse-related expenses must be separated from those of the business traveler and may not be deducted. There is one exception: "If you are traveling with your spouse who is participating for a genuine business reason in the event, then that individual's expenses are covered," said Flemming.

The payoff

Trade shows can be valuable resources for your business. By bringing together vendors and buyers in one place, these events facilitate more buying activity and higher profits. Taking the time to document your activity when you travel to a show can help alleviate the costly impact travel and hotel expenses can have on your bottom line.

"It can be hard to keep careful records when you are busy, but those records do help come income tax time," said Cawley. "Tracking your travel expenses when you attend a trade show can really pay off." ■

APPS THAT TRACK EXPENSES

Try using these electronic expense trackers.

Receipt-bank.com

Reads key details from receipts when you snap them with your smartphone. Store data online or export it to your computer. Pricing starts at \$15.00 monthly.

Expensify.com

Automates expense accounting from receipt scanning through final reports. Pricing starts at \$5.00 per month.

mileIQ.com

Runs in the background to track mileage. Creates a comprehensive travel record. Basic version offers 40 free drives each month.

Source: Flemming Business Services, Great Falls, Mont.