



# Tax Alerts

## Mixing Business Trips with Pleasure

With summer now in full swing many of us start to think about vacations. Often business trips, conventions, and continuing education seminars are planned to incorporate exotic locations and leisure time. With proper planning, these trips can yield great personal pleasure while generating legitimate deductions. Although the basic rules are relatively simple, there are a number of factors to consider.

**Business Travel - The Rules.** Taxpayers who travel away from their tax home on business are permitted to deduct travel expenses, non-lavish fares, meals, lodging, and incidental expenses. A business trip is "away from home" if it takes enough time that the taxpayer may be reasonably expected to need sleep or rest. Naturally, you are not prohibited from enjoying non-business or personal activities while on a business trip, **but the primary reason for the trip must be related to your trade or business.**

**Foreign Travel.** Foreign travel expenses are subject to some limitations that are not applicable to trips within the United States. Some of an individual's foreign travel expenses may not be deductible if he or she takes part in *substantial* non-business activity during the trip. Taxpayers who travel outside the U.S. for longer than one week or spend less than 75 percent of their time on business are subject to allocation rules, which partially disallow expenses. The general rule is to allocate expenses, including meals and lodging, between business and non-business on a day-to-day basis. Each day is either entirely for business, or it is considered to be a non-business day. A day counts as entirely for business if the taxpayer's principal activity on such day was the pursuit of a trade or business.

**Educational Travel.** The tax law expressly prohibits deducting expenses for travel as a form of education. However, a Tax Court case allowed a school teacher to deduct her travel and tuition costs related to two university courses overseas. Whether this "business need" may be extended to other professions or businesses remains to be seen as this case law develops.

**Conventions and Seminars.** Expenses for both self-employed persons and employees to attend a convention in the U.S. may be deductible if there is a sufficient relationship to the taxpayer's trade or business. However, a special rule prohibits the deduction of any costs of attending conventions or seminars for investment purposes. The deductibility of expenses for foreign conventions, outside of U.S. possessions, Canada, or Mexico, is subject to a higher standard than for U.S. conventions. The taxpayer must establish that the meeting is directly related to the active conduct of his trade or business and that it is reasonable to be held outside North American. A limited deduction is permitted for conventions on cruise ships if the ship is of U.S. registry, all ports of call are in the U.S. or its possessions, and the meeting is directly related to the taxpayer's trade or business. Rigorous reporting requirements must be satisfied, including written statements by both the attendee and an officer of the sponsoring organization.



**Staying Over.** Due to airline pricing policies, it is sometimes economical for a business traveler to stay over Saturday night although business was concluded on Friday. The additional lodging expense is frequently more than offset by the lower airfare resulting from the Friday or Saturday night stay-over. In such situations, the additional meals and lodging expenses for the Friday/Saturday mini-vacation may be written off entirely as part of the deductible as ordinary and necessary expenses of the trip.

If, on a business trip during the week, a certain day is devoted primarily for pleasure, that day's expenses are not deductible. Although this may be a nondeductible expense that the business traveler is willing to pay, you should be careful not to devote over half of the time you spend away from home on pleasure. In such a case, none of the transportation expenses getting to and from the location are deductible. On the other hand, if more than half of the trip is devoted to business, all of the transportation expenses may be written off as a business expense. ♦

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## Early Withdrawals from IRAs

During the current economic slowdown, many individuals are considering withdrawing funds from an Individual Retirement Account (IRA) to help cover daily expenses. You may withdraw money from an IRA at any time. However, there are important tax consequences. The withdrawal will trigger income tax liability of the amount withdrawn (except for some Roth IRAs) and a penalty unless you qualify for an exception to the penalty. Funds in an IRA usually should be the last nest egg you touch.

Generally, the amounts you withdraw from an IRA before reaching age 59 1/2 are called "early" or "premature" distributions. You must pay an additional 10 percent early withdrawal penalty and report the amount to the IRS for any early distributions, unless an exception applies.

Withdrawals from traditional IRAs and Roth IRAs are taxed differently since the 10 percent penalty only applies to the portion of the distribution subject to income tax (except for amounts attributable to Roth conversions within five years):

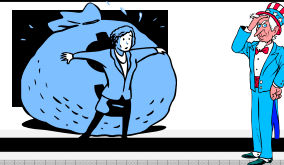
- \* For a traditional IRA, distributions are treated as coming ratably from contributions and earnings. Only the portion of a distribution attributable to nondeductible contributions is not taxed, while the portion of the distribution attributable to deductible contributions is treated the same as earnings.
- \* For a Roth IRA, distributions are first deemed to be paid out of contributions, which are nondeductible (or already taxed in the case of a rollover situation). Therefore, substantial withdrawals may be made for any reason from Roth IRAs without tax or penalty. There is a five-year wait period from the time the Roth IRA is first opened, however.

Several exceptions to the 10 percent penalty have been created in recent years. Most of these exceptions apply to both traditional IRAs and to Roth IRAs. The 10 percent penalty will not be assessed on an IRA distribution to the extent that any of the following exceptions apply:

- \* Qualified first-time home buyers can take up to up to \$10,000 from an IRA tax-free for acquisition costs and settlement costs as well as other eligible expenses (traditional or Roth IRA).
- \* The 10 percent penalty does not apply if you use the IRA distribution to pay for qualified higher education expenses (traditional or Roth IRA).
- \* Some unreimbursed medical expenses also are eligible for tax-free distributions (traditional or Roth IRA).
- \* Some unemployed individuals can withdraw funds from an IRA to pay medical insurance premiums (traditional or Roth IRA).
- \* Military reservists who are called to active duty may be eligible for penalty-free withdrawals.
- \* Distributions made on the death or disability of the IRA owner.
- \* "Periodic distributions" made evenly each year based on the remaining life expectancy of the account holder.

"Hardship distributions" are not among those exceptions sanctioned to avoid the 10 percent early withdrawal penalty. Some taxpayers confuse the ability of participants to withdraw funds from their employer-sponsored 401(k) plans "for hardships" with penalty free withdrawals in general. If a 401(k) plan includes a provision that allows for hardship distributions, that provision simply allows the withdrawal. It does not exempt it from either income tax or the 10 percent early withdrawal penalty.

The general rule of thumb on IRA withdrawals under normal circumstances is that a taxpayer should contribute in the first place only those funds that he or she will not touch under any circumstances. However, if emergencies arise, at least it will be up to you, rather than Uncle Sam, to make the decision on the trade-off between keeping funds for retirement and using them for certain other important lifetime events. ♦



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## Quickbooks Corner

Occasionally you may find that a report or form seems to print in an orientation opposite from what you need. If you run into this situation you may, at some point, wish to set the default print orientation so that you do not need to remember to change it prior to printing your forms. To accomplish this:

- Select File on the menu bar
- Select Printer Set-up
- Select the Form name from the drop down menu
- Select the printer orientation you wish
- Click the OK button

The next time you run your report it will automatically default to the orientation you selected.♦