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Client Information Bulletin

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Combining a Business Trip with a Vacation

How to secure business travel tax breaks

With the warmer weather approaching, you may be looking to spend some time at the beach, on the golf course or just relaxing by the pool. If you can add a few days of vacation onto a business trip, so much the better. Besides saving money, you may qualify for some generous tax breaks.

The basic rules are pretty simple: As long as the primary purpose of the trip is business-related, you can write off all your qualified travel costs within the United States. That means you may deduct such expenses as airfare, transportation to and from airports, lodging and 50% of your business meals, all with the blessing of the IRS. However, if a vacation is the primary motivation behind the trip, you cannot deduct any of your expenses.

How can you prove the "primary purpose" of your trip is related to business? Typically, you must show that the number of days spent on business exceeds the number of personal days while you are away from home.

For example, if your trip lasts one week and you spend four of those days on business, you qualify for business deductions, even if you spend the other three days on personal pursuits. Of course, any side trips of a personal nature—such as a sightseeing excursion or a shopping spree—are nondeductible.

Be aware that you may count your travel days as business days. Even better, you can also count weekends and holidays that fall between business days if it would be impractical for you to return home on those days.

Also, "standby days" when the client requests that you you are needed count as business days, regardless of whether you are actually called in to work. Similarly, days that you intend to work but could not for reasons beyond your control are counted as business days. For instance, a business meeting might be canceled because your client falls ill.

In the event your company reimburses you for travel costs, the reimbursements are tax-free to you, as long as you could have deducted the travel expenses under the rules explained above. Any excess reimbursements or amounts paying for personal expenses represent taxable compensation. If you are self-employed, unreimbursed business travel costs may be deducted in full on the appropriate tax forms. On the other hand, employees must claim unreimbursed travel expenses as miscellaneous itemized deductions.

You can write off miscellaneous expenses only to the extent that the total exceeds 2% of your AGI. Due to this 2%-of-AGI limit, you may get no or little tax benefit from travel costs.

Inside

Other special rules apply to foreign travel, luxury water travel and business conventions. Convention deductions may depend on the location. Consult a professional tax adviser for more details.

***Final words**: Keep a detailed log of all of your business activities. If your deductions are ever challenged by the IRS, you will need these records to show that the primary purpose of the trip was business-related.*

New Case Allows Deduction for Business Education

Tax Court approves write-off for advanced degree

No matter how old you are, you can still learn to do your job better. For example, you might take a refresher course to stay on top of the latest developments in your field. Or you may enroll in a curriculum that will start you toward a new career.

Can you deduct the cost of your educational expenses? Only if you receive a "passing grade" under the tax law tests. Now a new Tax Court case provides more hope for individuals pursuing a master's degree.

Basic rules: In general, education expenses are deductible if (1) the studies maintain or improve your skills in your current business or (2) you are required to take the courses to keep your present job. However, you generally cannot deduct these expenses if the courses (1) qualify you for a new trade or business or (2) satisfy the minimum requirements for your current position.

In other words, if a college or graduate school degree is the minimum requirement for a job, you may not be able to deduct the expense of obtaining the degree.

There's often a fine line between passing and failing under the tax law. For instance, assume that a course both improves your current job skills and entitles you to a promotion. Deductible or not? It depends. These situations are handled on a case-by-case basis. But the courts have traditionally disallowed tax deductions for courses leading to advanced degrees.

Facts of the new case: An individual had worked as a nurse at a number of facilities for more than 20 years. In 2005, she began taking graduate courses online. She completed her MBA in health care management in 2008. Although the MBA was not required for her job, the nurse believed it would make her more effective, both currently and in the future, in her position as a quality control coordinator.

The Tax Court ruled that the education did not qualify the taxpayer for a new trade or business. **Reason**: The MBA may have improved her preexisting skill set, but she was already performing the tasks and activities of her trade or business. So she is allowed to deduct the education costs.

Assuming you qualify under the basic rules, you can deduct the cost of your tuition plus expenses for incidentals (such as books and supplies). In addition, you may also be able to deduct some expenses of your transportation between work and school.

Caution: Unreimbursed employee business expenses—including those education expenses—are treated as miscellaneous expenses. The total of all your miscellaneous expenses is deductible only to the extent it exceeds 2% of your AGI.

What if an employer pays directly for the education expenses or reimburses its employee for the cost? If certain requirements are met, the expenses are deductible by the employer and tax-free to the employee. Be sure to obtain professional guidance in this area.

Give Us A Call!

Do you have any questions or comments about this newsletter or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.

That’s the Way the Cookies Crumble

Pros and cons of computer technology

A lot has been said and written in recent years about computer “cookies.” Much of it is misleading or confusing. In actuality, the ramifications of cookie technology can be positive, negative or neutral.

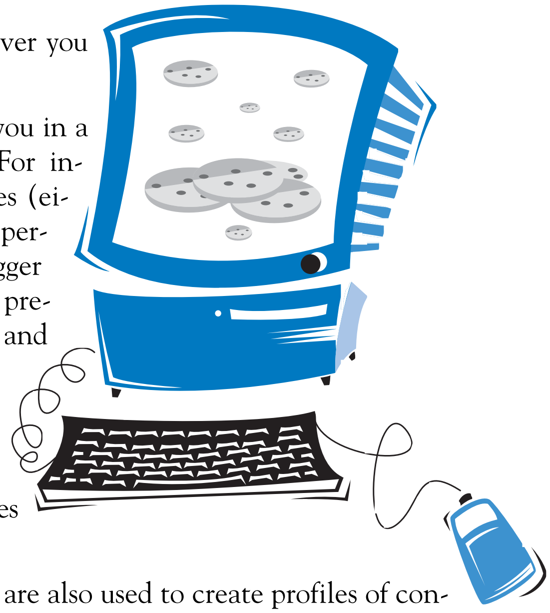
Cookies are either temporary (sometimes called “session” cookies) or permanent (“persistent”). It is important to know the difference.

♦ Temporary cookies are stored in your Internet browser’s memory, but they are deleted once you finish your browsing session. In contrast, permanent cookies reside on the computer’s hard drive. They remain there unless you delete them. Even if you delete these cookies, they will be re-created if you visit the same Web site.

When you visit a Web site, the information you submit—for example, an order form—is retained as you move from page to page. If this did not occur, you would have to make the same or similar entries over and over again as you navigated through the Web site.

With a temporary cookie, a small amount of browser memory is set aside to retain the required information. But then you must reenter the same information the next time you visit the Web site.

♦ A permanent cookie enables the Web site to recognize you by transferring a text file with a unique ID tag to your computer’s hard drive. The browser automatically presents the cookie whenever you visit the site.



This can benefit you in a myriad of ways. For instance, the cookies (either temporary or permanent) can trigger automatic logons, preserve preferences and save items to a “shopping cart,” just to name a few of the possible uses. Most cookies are not harmful.

However, cookies are also used to create profiles of consumers, essentially without asking their permission. The cookie tracks the Web sites where you have surfed, what pages were viewed, how long you stayed there and whether you returned. If you provide personal data, it may be stored with the unique ID tag.

Eventually, your profile could be passed to others for marketing purposes and possibly devious means. Sophisticated programs enable others to sort the information provided by computer cookies, categorizing targets in areas such as gender, race, age, income, political and religious affiliations, physical location, marital status and so on. Thus, the profile is available for all the world to see.

In one of the worst forms, cookies from one Web site might track your visits to a different Web site. For example, most of the ads that you see on Web sites do not actually come from the site that you are viewing, but from sites that provide ads to other sites. When the advertising site displays the ad, it can place cookies on your computer. This lets the advertising company track your Web surfing habits over a range of sites to build a profile.

Due to recent technological advances, cookie controls allow you to turn off cookies or use lists for exceptions. For example, you might turn off the cookies from a suspect site and maintain them for another when you think the purpose is useful.

Cookie contents are encrypted, so they can be distinguished only by the site that placed them. This enables you to maximize the positive aspects of cookies while minimizing the negative ones.

When Romantic Tension Is in the Air

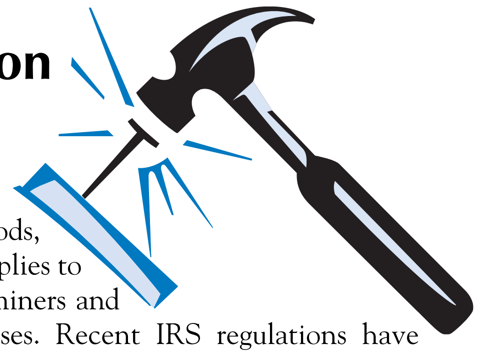
Romantic or sexual tension between workers may boil over in the workplace. When that happens, your company may fire one of the workers. This could lead to a sexual discrimination lawsuit.

New case: A female pilot who ended an affair with another pilot was cited by her ex-lover for poor flying skills. After management investigated, it found out about the broken romance but still pulled the female pilot from flight duty.

In this instance, the Ninth Circuit Court determined there was sufficient evidence that the sexual tension, not objective flying skills, was the basis for removal. Accordingly, it sent the case to trial.

Nailing Down the Manufacturing Deduction

Higher deduction available in 2010



Despite its nickname, the so-called "manufacturing deduction" is not necessarily limited to traditional manufacturing companies, although those firms are certainly eligible for the write-off. It is available to more businesses than you may think. If your company qualifies, it can claim a new "high point" deduction for 2010.

Background: Under Section 199 of the tax code, a business can currently deduct 9% of the lesser of its qualified production activity income (QPAI) or its taxable income. The maximum Section 199 deduction, established by the American Jobs Creation Act of 2004, was initially increased from 3% to 6% before reaching the top 9% figure for 2010. For a corporation in the top 34% bracket, the deduction is effectively equal to a tax cut of approximately 3%.

The QPAI is equal to domestic production gross receipts from qualified activities less expenses. Expenses include the cost of goods sold allocable to the receipts, allocable direct and indirect costs and a ratable portion of other costs.

The production activities must be performed, at least in significant part, in the United States. The annual manufacturing deduction is limited to 50% of the W-2 wages. The deduction can be claimed by any business entity—such as C corporations, S corporations, limited liability companies, partnerships and sole proprietors—as well as estates and trusts.

Besides traditional manufacturers of goods, this tax break also applies to farmers, fishermen, miners and construction businesses. Recent IRS regulations have focused on special treatment in the construction field. For instance, a qualified company does not actually have to construct buildings. The deduction may be extended to certain taxpayers in the business of painting, drywalling and landscaping.

Similarly, the deduction is generally available to engineers and architects. As long as the services are related to construction, the costs may qualify, even if no actual construction takes place. The deduction may also be claimed by businesses conducting feasibility and environmental impact studies.

Under a safe-harbor rule, a business entity can take the deduction if at least 20% of the total costs are the result of direct labor and overhead costs from U.S.- based operations. If any part of the production activities come from outside the United States, the business must use either the safe-harbor rule (at least 20% of total costs are from U.S-based production activities) or allocate costs using the particular facts and circumstances.

Consult with a professional tax adviser to determine if your business qualifies for the higher 9% manufacturing deduction in 2010.

Facts and Figures

Timely points of particular interest

➡**COBRA Subsidies**—A new defense appropriations law extends the 65% COBRA subsidy for unemployed workers. Previously, qualified workers "involuntarily terminated" between September 1, 2008, and December 31, 2009, could claim the discount for employer-provided health insurance for up to nine months. Under the new law, the program is extended to a total of 15 months for terminations through February 28, 2010.

➡**Workplace Health Issues**—Can your company keep employees away from the office due to concerns about the H1N1 flu virus? The Equal Opportunity Employment Commission provides guidelines on this point, as well as several other related issues, in a new fact sheet. You can find "Pandemic Preparedness in the Workplace and the Americans with Disabilities Act" at www.eeoc.gov/facts/pandemic_flu.html.