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Client Information Bulletin
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Mapping Out Deductions for Business Travel

How to maximize the tax benefits of business trips

Are you planning a business trip to a distant city? If the destination is known for its cultural attractions or recreational activities, you might want to combine your business with a little pleasure. In fact, this could be a chance to get away after the children have gone back to school or to just spend some quality "alone time" with your spouse.

The good news is that the bulk of your expenses are deductible if you handle things the right way. However, if you are not careful, you could run afoul of some tricky tax rules.

Background: Generally, you can deduct business travel expenses from your home to another part of the country if the primary purpose of the trip is business-related. (Special rules apply to foreign travel expenses. We will cover foreign travel in a future issue.) This includes the cost of airfare and transportation to and from the airport. Alternatively, you may deduct the costs of traveling by car, rail, bus, ferry or other means. In addition, you can deduct the cost of your lodging and 50% of your meals attributable to business travel.

Conversely, if the trip is really a vacation in disguise, you cannot deduct any of your travel expenses. To claim a deduction, you must show that you spent more time on business than pleasure. Thus, the number of business vs. personal days is critical from a tax perspective.

Tax advantage: The days going and coming back are treated as business days. This can make your case clear-cut.

Example: Mr. Smith leaves for a business trip on Monday. He spends the next three days—Tuesday, Wednesday and Thursday—in meetings before wrapping up a big deal. Then, he relaxes on the golf course on Friday and stays over the weekend for sightseeing. On Monday, Smith flies back home, concluding his eight-day trip.

Thus, Smith has spent a total of five days on business including three days in meetings and two days traveling. In contrast, he spent only three days on personal pursuits. Because he spent five business days vs. three personal days, he qualifies for travel deductions.

Of course, Smith cannot deduct any expenses attributable to golfing or sightseeing. These are purely personal expenses. However, if he entertains a client on the golf course the day following or preceding a "substantial business discussion," the cost is deductible as business entertainment under the usual tax rules.

Inside

What about your spouse? Although you cannot directly deduct expenses attributable to your spouse, you may write off the cost of what you would have spent to travel alone, even if that is more than half the amount you pay for the two of you.

Let's go back to our previous example. If it would have cost Mr. Smith $200 in lodging each day for eight days traveling alone, but he incurred charges of $300 per day for lodging that included his wife, he can still deduct $200 per day, for a total of $1,000 for five business days.

Detailed recordkeeping in this area is essential. Make sure you have all the travel records required to back up your claims if the IRS ever challenges the deductions.

How to Salvage a Home Sale Exclusion

Partial tax break may be available

One of the biggest tax breaks in the tax code is the home sale exclusion. If you qualify, you can exclude the tax on the first $250,000 of gain from the sale of your principal residence, doubled to $500,000 if you file a joint return. But the exclusion is not available if you do not meet certain requirements.

Saving grace: Even if you fall short, you may be eligible for a partial tax exclusion permitted for a handful of exceptions. It is critical to carefully observe the rules in this area.

To qualify for the home sale tax exclusion, you must have owned and used the home as your principal residence for at least two out of the previous five years. Generally, you cannot claim an exclusion if you do not meet the ownership and use tests or if you claimed the exclusion within the last two years.

However, if you sell the home without meeting the two-year requirement or if you have claimed the exclusion within the last two years, you still may be eligible for a partial exclusion. This tax break is allowed only if you sell the home due to a change in employment, a need for medical care or other unforeseen circumstances.

For this purpose, the IRS has issued regulations defining "unforeseen circumstances." The list includes the following occurrences:

- death
- divorce
- loss of employment
- an employment change that reduces your ability to pay for the home
- multiple births from a single pregnancy
- damage from a disaster
- taking of property

If none of these exceptions apply, the IRS will examine the facts and circumstances of the case. The most important factors are whether the home has become less suitable as a principal residence, if your ability to pay for the home has materially decreased and if the rationale for the sale could not have been reasonably anticipated when you acquired the home.

How much is the partial exclusion? It is equal to the available exclusion amount (a maximum of $250,000 or $500,000, depending on your filing status) multiplied by the percentage of the two-year limit for which you qualified.

Example: Suppose that you are a joint filer and you and your spouse have owned and used a home as your prin-

Will Online Sellers Owe State Sales Taxes?

It has been a bone of contention for small retail outfits in recent years: While online sellers of goods and services may escape state sales taxes nationwide, brick-and-mortar establishments have to ante up to the state where they are physically located. The disparity has created some controversy.

The latest attempt in Congress to level the playing field, the Marketplace Fairness Act of 2015, is currently being debated. Previous attempts at this type of legislation have failed, but momentum for this effort seems to be gaining. We will keep you posted.

cipal residence for nine months. Due to unforeseen circumstances, you are forced to move, so you sell the home at a $200,000 gain. Unfortunately, you do not qualify for the full home exclusion because you have not met the two-year requirement.

Nevertheless, you can still salvage a partial exclusion. The appropriate percentage is 37.5% (nine months divided by 24 months). When you multiply $500,000 by 37.5%, the result is $187,500. Thus, you can exclude $187,500 of gain from tax, and the remaining $12,500 is taxable as a capital gain.

Under the capital gain rules, a capital asset held for a year or less is taxed at ordinary income rates. Any long-term gain is taxed at a maximum 15% rate, or 20% if you are in the top ordinary income tax bracket. Consult your professional tax adviser for your situation.

Give Us A Call!

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

Feeling Good About a Crummey Trust?

Consider this estate-planning technique

Despite its off-putting name, a "Crummey trust" can provide favorable results for individuals who have a significant amount of assets. This device might be incorporated into a comprehensive estate plan.

Background: One of the basic ways of saving estate tax is to utilize the annual gift-tax exclusion during your lifetime. Currently, this provision enables you to give away up to $14,000 each year to a donee without paying any federal gift tax ($28,000 for a joint gift by a married couple). For example, if you have two adult children and three grandchildren, you and your spouse can give each one $28,000 for a grand total of $140,000 in tax-free gifts.

This is a relatively simple way to reduce your taxable estate. (Gifts in amounts above the annual exclusion may be sheltered from gift tax by the lifetime gift-tax exemption of $5.43 million in 2015, but this reduces the effective estate-tax shelter.)

When you make an outright gift to a beneficiary like a child, however, you give up control over the assets. So, you run the risk that the money may be squandered—especially if the child is young or irresponsible. Instead, if the assets are transferred to a trust with the child as a beneficiary, you can appoint a trustee to manage the property. After a set period of time (e.g., when the child reaches a certain age), the assets are distributed to the child.

Potential problem: To qualify for the annual exclusion, the gift must be a "present interest." When a gift is placed in a trust and is not distributed to the beneficiary for a period of years, it is generally considered a "future interest." This results in a taxable gift. The Crummey trust (named for the case that authorizes its use) was devised as a solution to this problem. Typically, the beneficiary of the trust is granted the right to withdraw trust principal shortly after it is transferred to the trust. Since the beneficiary has a present right of withdrawal, the gift qualifies for the gift-tax exclusion.

Of course, if you are the donor of the trust, you may not want your child to withdraw the assets. Nevertheless, these so-called Crummey powers are usually not exercised. While the beneficiary must be notified of the withdrawal power, he or she may be too young to understand the implications. The trust principal does not have to be paid out when the beneficiary reaches a certain age, so the trust can continue for a long period of time.

Be aware that there are several variations on this theme. Typically, this is not a do-it-yourself proposition. Setting up and administering a Crummey trust usually requires expert professional assistance.

Steps Toward Better Behavior at Work

How to improve workplace etiquette

Are you tired of coworkers who are rude, inappropriate or self-absorbed? In many places of business across the country—including boardrooms, offices and plant floors—proper business etiquette is not being observed. What's more, bad behavior can sometimes lead to confrontation and even violence that may threaten a person's well-being and the business as well.

The first lesson to be learned: Before you criticize others, look to your own behavior. By making a conscious effort to improve your own manners, you can help set the tone for the workplace, especially if you are an owner or one of the top managers. Consider these common sense suggestions:

♦ Put your cellphone on vibrate in meetings. Better yet, shut it off completely.

♦ Pay attention to the people in meetings, not your cellphone or other devices. Avoid scrolling through e-mails. Give your complete attention to the task at hand.

♦ Don't wear strong cologne or perfume. Dress appropriately.

♦ Stay home if you are sick. Do not risk spreading germs or otherwise affecting (and infecting) the workplace.

♦ Be on time for meetings. Reschedule meetings if you simply do not have enough time. It is rude to constantly keep people waiting.

♦ Stick to the schedule. If workers are just standing around and waiting for you, productivity suffers.

♦ Don't disturb others who are working. If you need to have a loud conversation or conference call, find a private place.

♦ Eat lunch or snacks in the break room if there is one. Don't infiltrate the workplace with exotic smells.

♦ Try to keep your voice at a reasonable level when you are in areas where others are congregating. This often applies to conversations in cubicles or hallways.

♦ Respect the property rights of others. That includes items hanging in a closet or stored in a refrigerator!

♦ Don't be so quick to fly off the handle. Not only is yelling and screaming usually counterproductive, but it can be embarrassing.

If you are in a position of authority, how can you best deal with offenders? For starters, don't react with bad behavior of your own. Second, take the person aside in private and explain the problem without getting emotional or angry. Sometimes, a little sympathy can go a long way. Make it a point to follow up with the worker and commend him or her for any improvement.

Of course, there are no guarantees that bad or rude behavior will stop. If it continues or worsens, follow the procedures required by company policy, including involvement of the human resources department.

Facts and Figures

Timely points of particular interest

➡**Millionaires' Club**—The list of people who are millionaires is not quite as exclusive anymore. According to a new report, the ranks of worldwide millionaires swelled by 920,000 last year, the sixth straight year-over-year increase. The trend was mainly due to rising stock prices. More than one-third of the club resides in the United States, where the Standard & Poor's Index rose by 11% in 2014.

➡**Legal Fees**—A self-employed individual claimed to use 50% of her condo for business purposes. She sued the homeowners association for allowing her neighbor's dogs to run wild, while claiming that construction defects in her condo led to mold and excessive noise, all of which interfered with her business operation. The tax court approved a business deduction for her legal fees equal to 50% of the applicable costs.

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