*****Accounts Payable will be responsible for determining whether the cost of international travel with personal use is taxable based on information provided on the Travel Claim*.**

F. TAXABILITY OF INTERNATIONAL TRAVEL WITH PERSONAL USE

Travel Deemed Entirely for Business - Nontaxable

The Internal Revenue Service (IRS) allows a deduction of all travel expenses to get to and from a business destination when the travel is international and considered ***entirely*** for business. When an employee spends a portion of his/her time on personal travel, any employer reimbursement applicable to the personal portion of the trip is taxable unless an exception applies. Treasury Regulation section 1.274-4 and IRS Publication 463 (2015), page 7, summarize these rules.

The value of an employee's international flight will be considered entirely a business cost, and thus completely nontaxable, when any one of 4 exceptions applies:

1) The employee does not have *substantial control* over arranging the trip;
2) Travel outside of the U.S., combining business and personal time, is for one week or less;
3) Less than 25% of total time is spent on personal activities; ***or***
4) Vacation is not a major consideration in planning the trip.

Under exceptions 1) and 4), the trip will be deemed entirely for business purposes if a) the employee did not have substantial control over arranging the trip, or (b) the employee can establish that vacation was not a major consideration in arranging the trip. If the employee's primary purpose for travel outside of the U.S. is vacation, then the flight is fully taxable, and only the reimbursed business expenses incurred while on the trip are nontaxable.

The IRS defines "substantial control" as follows: *The fact that you control the timing of your trip does not, by itself, mean that you have substantial control over arranging your trip. You do not have substantial control over your trip if you are an employee who was reimbursed or paid a travel expense allowance and you are not related to your employer, or are not a managing executive.*

A "managing executive" is an employee who has the authority and responsibility, without being subject to the veto of another, to decide on the need for business travel.

Travel Primarily for Business – Allocation Rules

If none of the four exceptions listed above applies, then an employee's travel outside the U.S. is ***primarily*** for business. Only the business portion of the cost of getting to and from the destination is nontaxable. To determine the nontaxable amount of the round-trip flight, apply the following ratio to the total cost of the flight: total number of business days outside the U.S. (numerator) / total number of business and nonbusiness days of travel (denominator). When a travel day consists of both business and personal time, the day will be classified as a business day in order to determine the percentage of personal time associated with the trip.

The rules set forth in this section are limited to the cost of the transportation to and from an international destination, defined as outside the 50 United States and the District of Columbia. To determine the taxability of other travel expenses reimbursed by the employer, besides transportation, refer to the relevant part of this manual for meals, lodging, etc.

Travel associated with sabbaticals will be treated as official University business.

See Appendix H for examples of international travel mixed with a personal component.

APPENDIX H - TAXABILITY OF INTERNATIONAL TRAVEL WITH PERSONAL USE

Reimbursements for international travel that have both a business and a personal component may be subject to tax.

An employee's international travel will be considered entirely for business, and thus completely nontaxable, when any one of 4 exceptions applies:

1) The employee does not have *substantial control* over arranging the trip;
2) Travel outside of the U.S., combining business and personal time, is for one week or less;
3) Less than 25% of total time is spent on personal activities; ***or***
4) Vacation is not a major consideration in planning the trip.

Five examples of international travel with a personal component are provided below.

Example 1: Trip with a Taxable Event

An employee plans a personal vacation to coincide with a business conference in London. He travels to London for 10 days, of which 7 days are business-related and 3 days are personal; 70% of the trip is business and 30% is personal. The employee is a managing executive who does not need authorization for travel.

The traveler is reimbursed for airfare and 7 days of meals and lodging. The other 3 days of meals and lodging are considered personal and are not reimbursed.

Since none of the four exceptions applies: 1) the employee did exercise substantial control in arranging the trip, 2) the trip was longer than one week, 3) at least 25% of the time outside the U.S. was spent on personal activities, and 4) vacation was a major consideration in planning the trip, the employee must be taxed on 30% of the airfare, which is considered personal use under IRS regulations. (Personal Component: 3 days/10 days = 30%)

Example 2: Trip with No Taxable Event Due to Exception 3

An employee travels to London for 10 days, of which 8 days are business-related and 2 days are personal; 80% of the trip is business and 20% is personal.

The traveler is reimbursed for airfare and 8 days of meals and lodging. The other 2 days of meals and lodging are considered personal and are not reimbursed.

The cost of airfare, even though it is reimbursed to the traveler, is not taxable since the personal component is not equal to or greater than 25% of the trip. (Personal Component: 2 days/10 days = 20%)

In this circumstance, because one of the exceptions is met, we don't need to examine the other 3 exceptions for applicability.

Example 3: Trip with No Taxable Event Due to Exception 1

An employee who is neither a managing executive of, nor related to, Y Company, travels to Japan for a business conference on behalf of his employer, Y Company. The employee is reimbursed by Y for his traveling expense to and from the conference location.

The trip took more than a week and the employee took advantage of the opportunity to enjoy a personal vacation which exceeded 25 percent of the total time on the trip. Since the employee, traveling under a reimbursement arrangement, is not a managing executive of, or related to, Y Company, he is not considered to have substantial control over the arranging of the business trip, and the travel expenses shall be considered fully allocable to business activity.

Example 4: Trip with No Taxable Event Due to Exception 4

A managing executive and principal shareholder of X Company, travels from New York to Stockholm, Sweden, to attend a series of business meetings. At the conclusion of the series of meetings, which last 1 week, E spends 1 week on a personal vacation in Stockholm. If E establishes either that he did not have substantial control over arrangingthe trip or that a major consideration in his determining to make the trip was not to provide an opportunity for taking a personal vacation, the entire travel expense to and from Stockholm shall be considered fully allocable to business activity.

Example 5: Trip with No Taxable Event Due to Exception 2

Employee flew from New York to Paris where he conducted business for 1 day. He spent the next 2 days sightseeing in Paris and then flew back to New York. The entire trip, including 2 days for travel en route, took 5 days.

Since the time outside the United States away from home during the trip did not exceed 1 week, the entire travel expense to and from Paris shall be considered fully allocable to business activity.