

Travel Expenses, Domestic And International

To be deductible, travelling expenses must be necessarily incurred in carrying on a business for the purpose of deriving income.

Generally, a deduction for travel expenses is calculated on a factual basis.

That is to say, a deduction is allowed for work-related travel including:

- Travel between business places.
- Travel overseas.

A deduction is not allowed for travel between your home and place of business, unless your residence is used as a work base.

Practically speaking, the best way to ensure that you have sufficient proof of the connection between the travel expense and your business is to record a memo of the nature of the trip and its relationship to your business with the expense invoice / receipt.

Travel and Capital Expenses

Generally, travel expenses relating to the purchase of business assets is regarded as capital and looked upon as part of the cost of the machinery.

However, a deduction is allowed for travel expenses undertaken to study new machines or processes.

Overseas Travel Expenses

Overseas travel expenses are deductible to the extent that they are incurred in the course of the taxpayer's business. Any element of holiday expenditure is not deductible.

Given the Inland Revenue Department's attitude to overseas travel expenses, the best advice we can give you is to complete a detailed travel itinerary and diary. You should record:

- Letters of introduction.
- Business contacts / cards.
- Firms visited.
- Business conducted / reason for the visit to that firm.
- Diversions from the business itinerary for personal purposes.
- Detailed list of expenses.

Where the trip contains a private or capital element, an apportionment of the costs may be necessary.

Each Case Will Depend on its Own Facts

In general terms however, any apportionment will work as follows:

- Where any entertainment aspect is incidental to the work element, the dominating purpose of the trip determines the deductibility of the expenditure. No adjustment for the private component is necessary if:
 - (i) The cost of private entertainment is minor.
 - (ii) The private entertainment does not lead to a longer stay.It is recommended that full records still be kept.
- Apportionment – where there are two purposes for the trip, both truly separate.
- No deduction – where the work aspect is really just incidental to the holiday.

Taxpayer's Spouse/ Family Members Accompanying

In some situations a taxpayer can claim expenses for a companion, spouse or other family member. Examples of factors which might support such a claim are:

- The companion, spouse or family member is employed full time in the business and is actively engaged on business activities while overseas.
- The taxpayer travelling on business must be accompanied because of ill health. In this case the expenses of the accompanying person (even if this is another family member) may also be allowed. The Commissioner may request a Medical Certificate if necessary.
- An associated overseas organisation expects a taxpayer to be accompanied by a spouse.
- The accompanying person is the spouse of a professional taxpayer and attends an overseas conference with the taxpayer who is:
 - The leader of the delegation.
 - A member who is the only accredited delegate, or
 - A member presenting a paper at the conference.
- The taxpayer attends a conference and the companion or spouse contributes in some integral way to the conference.
- Details required:
 - Spouse's qualifications for the work undertaken.
 - Correspondence with the overseas firms which outline the proposed visit of the spouse prior to departure.
 - Resolutions appointing them as an official advisor.
 - Full itinerary – details of all appointments.
 - Cost of fares, accommodation, etc.

Investor's Travel Expenses

In some cases, an investor may be able to claim a deduction of the travel expenses incurred in connection with the management or administration of investments. The investor would need to show that there is a sufficient connection between the travel expenses and the business and production of gross income.

Travel by Group Tour

When the travel is by group tour it is common for the tour organisers to supply the Department with the necessary details. In such cases the Department usually gives overall approval in principle and the individual's travel claims are generally accepted without further questions.

However, the Commission is entitled to review individual claims for such expenses at a later date. Where the business content is considered to be less than 50%, general approval is not given unless there are special circumstances. The percentage is calculated by considering how each day of the tour is spent. The total number of days spent on business-related activities is compared to the total number of days of the tour excluding days spent travelling.

Our Advice

It really is best to consider the taxation implications of such travel before the trip is planned rather than on your return to New Zealand!

We suggest that you make an appointment to see us so that we can work together to legitimately maximise your travel expenses claim.

Disclaimer

The contents of this publication are a summary of generalised information as at the date of publication.

Readers should not rely solely on the contents and should consult their Accountant for particular advice for their situation.

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