



## *This Month:*

- ◆ **Withdrawal of Stimulus Rebates**
- ◆ **Tax Deductible Vacations?**

### **Withdrawal of Stimulus Rebates**

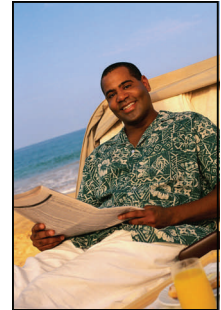


If you provided the IRS with your bank account number on your tax return, both your refund and any Economic Stimulus rebate you qualify for will be automatically deposited to that account. And if you instructed that your refund be deposited into an account that is given favorable tax treatment under the Code, your Economic Stimulus Payments will be deposited there.

IRS recently announced that it will permit the tax and penalty-free withdrawal of 2008 stimulus rebate payments that were made directly into tax-favored accounts such as an IRA, a health savings account (HSA), an Archer MSA, a Coverdell education savings account (CESA), or a qualified tuition program account (QTP or 529 plan). Withdrawal, which may be up to amount of rebate, must be made generally by the due date of 2008 return (including extension), and won't be treated as either contributed to or distributed from the account. This relief is available for amounts withdrawn from these tax-favored accounts that are less than or equal to a taxpayer's directly deposited stimulus rebate. Without this relief, taxes, penalties and other special rules would apply to amounts removed from these accounts. Thus, for example, a taxpayer whose \$1,200 stimulus payment is directly deposited into his or her IRA can take out any amount up to \$1,200 from the IRA, tax-free and penalty-free.

### **Tax Deductible Vacations?**

Although business is business, and pleasure is pleasure, the world rarely adheres to absolutes. So, as the summer vacation season begins to unfold, you may want to consider mixing some leisure time in with your business travel. With a little planning, you can get Uncle Sam to subsidize your downtime.



**Business or Pleasure.** The IRS doesn't specify the determination of whether a trip is for business or pleasure on domestic trips. However, looking to the rules on international travel for guidance, the number of days spent on each type of activity is the key. An important factor in determining if the trip is primarily business or pleasure is the amount of time spent on each, although this isn't the sole factor. In general, the trip is "primarily for business" if more than half of the days is spent on business activities.

The following days count toward your total business days:

- Travel days;
- Weekends and holidays, if they fall between days devoted to business and it would be impractical to return home;
- "Standby days," when your physical presence is required, also count as business days – even if you're not called upon to work on those days;
- Any other day *principally* devoted to business activities during normal business hours; and
- Days you intended to work but couldn't due to reasons beyond your control (local transportation difficulties, power failures, etc.)

If the trip doesn't involve the actual conduct of business but is for the purpose of attending a convention, seminar, etc., IRS checks the nature of the meetings carefully to make sure they are not vacations in disguise. Be careful to save all material helpful in establishing the business nature of this travel. Meticulous recordkeeping and thorough planning are necessary.

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**Transportation costs.** The cost of traveling within the United States is 100% deductible as long as the primary purpose for the trip is business rather than pleasure. In contrast, no travel deductions are allowed if the main reason for a trip is personal.

It's important to keep your receipts and to be able to prove the number of days spent on business. What can you claim as transportation expenses when you pass the primarily-for-business test? Deductible expenses include the following:

- Traveling to and from your departure airport
- Airfare
- Baggage tips
- Cabs to and from the destination airport
- Rail travel
- Vehicle expenses

**Meals and Lodging.** Once at your destination, expenses for such items as lodging, hotel tips, local cab fares, and 50% of meals are deductible when related to business days. However, these same types of expenses aren't deductible for non-business days. Additionally, no deduction will be allowed for meals or lodging to the extent the expense is "lavish or extravagant." Although this term isn't defined in the tax rules, it has been interpreted to mean "unreasonable."

Personal entertainment costs on the trip aren't deductible (such as a sightseeing tour), regardless of the day on which they fall. But business-related costs such as for dry-cleaning, phone calls, and computer rentals are.

**Taking Your Spouse.** The rules on deducting the costs for a spouse accompanying you on a business trip are very restrictive. No deduction is allowed unless your spouse is an employee of yours or your company and his or her travel is also for a business purpose. This means you can't deduct the travel costs of a spouse, even if his or her presence has a bona fide business purpose, unless your spouse is a bona fide employee of your business.

If your spouse is your employee, and if his or her presence on the trip serves a bona fide business purpose, then you can deduct his or her travel costs. Merely having your spouse perform some incidental business service - such as typing up notes from a meeting - isn't enough to establish a business purpose. In general, it isn't sufficient for your spouse's presence to be "helpful" to your business pursuits—it must be "necessary."

If your spouse's travel is not deductible, you can still deduct your own travel and meals; however, a shared cost - as with lodging - is deductible only at the single rate.

Not sure whether your travel expenses will be deductible? Take a few minutes to give our office a call.

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