

TRANSPORTATION EXPENSES

QUALIFIED EXPENDITURES

Transportation expenses are the ordinary and necessary expenses of getting from one workplace to another in the course of your work when you are not traveling away from home. Expenses for transportation while traveling away from home may be deductible as travel expenses found below. Generally, transportation expenses are all of the expenses associated with local transportation for business purposes (excluding commuting), while travel expenses are all of the expenses associated with travel (including meals and lodging) while away from home overnight for business purposes.

COMMUTING EXPENSES

Commuting between home and one's place of employment is a personal, non-deductible expense. It does not matter if you do work in your car on the way to work and even if the pastor is required to make more than one round trip between home and work in one day, it is still commuting expenses. Examples from "Church and Clergy Tax Guide".

Trips between church and a second "business" location:

The pastor leaves the church to visit someone in the local hospital. These trips from the church to a second business location are business related expenses which may be reimbursed by the church.

Trips between a second "business" location and home:

The pastor travels from church to a hospital to make a call and then goes directly home from the hospital. The miles from the church to the hospital are business related but the miles from the hospital to the pastor's home are non-deductible commuting expenses.

Trips between home and a temporary business location:

The pastor is requested to perform a funeral or wedding in another city. The IRS ruled in 1990 that these trips are legitimate business activities rather than commuting.

Trips between home and a hospital:

When a pastor travels from home to a hospital the expenses are generally non-deductible commuting expenses; however, under Rev. Rul. 90-23 if the visits to the hospital are irregular, such visits are deductible. The trip from the hospital to the church is deductible in both cases.

COMPUTATION OF AUTOMOBILE EXPENSES

A tax payer has two choices of computing automobile expenses: (1) the mileage method, or (2) the actual operating costs, which includes depreciation, gas, oil, repairs., licenses, and insurance. Records must be kept and details of the automobile's personal and business use. Only the percentage allocated to business transportation and travel is allowed as a deduction. The complex rules for the computation of depreciation apply. See attached forms.

METHOD 1 - STANDARD MILEAGE METHOD

Use of this method is the simpler method. For 2000, the IRS deduction is

based on .325 cents per mile for all business miles, plus parking fees and tolls. If you elect to use this method of computing your transportation expenses, the amount of your automobile expenses is treated as substantiated, provided you show the time, place, and business purpose of your travel.

METHOD 2 - ACTUAL COST METHOD

You may compute your transportation expenses by using your actual costs incurred in operating a car for business purposes. There is much more work involved. If you use your car both for business and personal purposes, you must divide your expenses between business and personal use. The purchase cost of a car is allocated over the useful life of the vehicle, and an annual depreciation deduction may be claimed each year. It is suggested that professional advice be obtained to use this method.

LEASING A CAR

If you lease a car you may deduct the part of your lease payments that are for the use of the car in your work. You cannot deduct any part of the lease payments that are for commuting or for other personal use of the car. You must spread any advance payments over the entire lease period. You may not deduct any payments you make to buy a car even if the payments are called lease payments. You may have to include in your gross income an amount called an "inclusion" amount if you leased a car in 1994 that had a fair market value exceeding \$14,700 (see luxury car limits).

EMPLOYER-PROVIDED CARS

If a church purchases an automobile and adopts a resolution restricting the use of the car to church-related activities, then the church's minister reports no income or deductions. There are no accounting, reimbursements, allowances, or record keeping requirements. This assumes that the car is used exclusively for church-related purposes. There are five stringent conditions that must be satisfied and the church must prove to the IRS that they have been met. If the church allowed its minister to commute in a church-owned vehicle, the preceding advantages would not be available. However, a church-owned vehicle exclusively used for business purposes, except for commuting, could receive many of the benefits associated with the business use of a church-owned vehicle. The minister's personal use of the car is a taxable non-cash fringe benefit and the church must determine the actual value of this fringe benefit so that it can be included in the minister's income and reported on his/her W-2 or 1099 form.

TRAVEL EXPENSES

DEFINITION OF TRAVEL EXPENSES

Travel expenses include transportation expenses and meals and lodging while away from home in the pursuit of a trade or business. Meals cannot be lavish or extravagant under the circumstances. Transportation expenses, as discussed above, are deductible even though the taxpayer is not away from home. A deduction for travel expenses is available only if the taxpayer is away from his/her tax home. Travel expenses also include reasonable laundry and incidental expenses.

AWAY FROM HOME REQUIREMENT

A crucial test for the deductibility of travel expenses is whether or not the employee is away from home overnight. "Overnight" need not be a twenty-four period, but it must be a period substantially longer than an ordinary day's work and must require rest, sleep, or relief from work. A one day business trip is not travel, and meals and lodging for such a trip are not deductible. Examples:

- Reverend Dorigt conducts a funeral service for a member of his congregation and travels to another city. He leaves at 7:00 a.m. and returns home at 6:00 p.m. His expenses are not travel expenses.
- Reverend Dorigt conducts a funeral service for a member of his congregation and travels to another city. He leaves at 7:00 a.m. and returns home at 11:00 a.m. on the following day. Since this trip was overnight, the car, meals and lodging expenses are travel expenses.

PER DIEM UNDER ACCOUNTABLE PLANS

Instead of providing a straight reimbursement for substantiated out-of-pocket travel expenses, an employer may provide a per diem allowance to cover meals, lodgings, and incidental expenses on business trips away from home. (Rev. Procedure 89-67 and 93-50). The rules are complex and the employer and employee must be aware of many rules.

RESTRICTIONS ON DOMESTIC TRAVEL EXPENSES (INCLUDING CRUISE SHIPS)

Business - For travel expenses to be fully deductible, the business trip must be entirely related to the taxpayer's trade or business.

Pleasure (personal) - If your trip was primarily personal, you may not deduct any travel expenses even if you have some business activity at your destination. You may deduct expenses related to the conduct of business.

Combined Business and Pleasure Travel - If the business/pleasure trip is from one point in the US to another point in the US, the transportation expenses are deductible only if the trip is primarily for business. If the trip is primarily for pleasure, no transportation expenses can be taken as a deduction. Meals, lodgings, and other expenses must be allocated between business and personal days.