

Pilot Tax Deductions For Business Travel

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When pilots are flying the line, they are always on business travel, and as such, pilots' qualifying travel expenses are deductible as ordinary and necessary business expenses. This article reviews the federal rules for U.S. pilots regarding the taxation and deductibility of travel expenses, including per diem reimbursements, for the 2012 tax year (for which individual tax returns are due, generally, by April 15, 2013). For the benefit of your tax advisers, the official rules for tax

year 2012 are set forth in IRS Notice 2012-63. General information is also contained in IRS Publication 463, Travel, Entertainment, Gift, and Car Expenses, and IRS Publication 1542, Per Diem Rates. These documents are available on the Internet at www.irs.gov.

In IRS Notice 2012-63, the agency released the special rates for the transportation industry, the rate for incidental-expenses-only deductions, and its list of high-cost localities.

Many of ALPA's collective bargaining agreements provide that the airline will pay each pilot a fixed amount, often called "per diem," to cover meals and incidental expenses that pilots incur while on

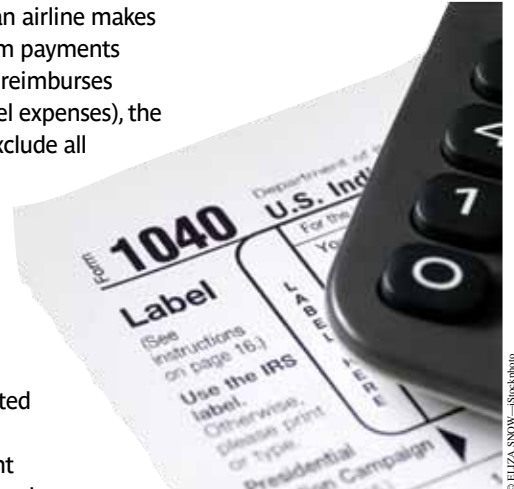
a trip. When an airline makes these per diem payments (or otherwise reimburses pilots for travel expenses), the airline may exclude all or a portion of the per diem payments or reimbursements from pilots' taxable income reported on Form W-2.

The amount excluded depends on whether the amount paid exceeds the federal per diem rates or special per diem rates that apply to the transportation industry. Frequently, the amount of the per diem the airline pays or reimburses is not enough to cover reasonable business travel expenses, and in those cases, pilots may be entitled to claim an itemized deduction for the expenses not covered.

If a pilot receives no per diem payments or reimbursements from the employer, or receives per diem payments that the airline includes in taxable income, the pilot may be entitled to claim an itemized deduction for expenses incurred while on business travel.

Expenses for "overnight trips"

For travel expenses either to be excluded from taxable income or to be claimed by a pilot as an itemized deduction, expenses must be incurred while on a business trip that requires sleep or rest (an "overnight trip").



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Expenses incurred on trips that are not overnight trips do not satisfy this requirement. For pilots, the expenses at issue are usually meal and incidental expenses, because the airline invariably pays for lodging directly or reimburses for it separately.

Substantiating expenses

Recognizing the burden of requiring pilots to actually substantiate expenses, the IRS provides that a designated amount of expenses relating to overnight trips



SECTION 3. SPECIAL M&IE RATES FOR TRANSPORTATION INDUSTRY

The special M&IE rates for taxpayers in the transportation industry are \$59 for any locality of travel in the continental United States (CONUS) and \$65 for any locality of travel outside the continental United States (OCONUS). See Section 4.04 of Rev. Proc. 2011-47.

SECTION 4. RATE FOR INCIDENTAL-EXPENSES- ONLY DEDUCTION

The rate for any CONUS or OCONUS locality of travel for the incidental-expenses-only deduction is \$5 per day. See Section 4.05 of Rev. Proc. 2011-47.

may be deemed substantiated. For amounts deemed substantiated, pilots need not maintain any records of the amounts actually spent while on the trip.

If the employer pays for lodging separately, the designated amount of expenses for meal and incidental expenses (M&IE) that is deemed substantiated is generally equal to the lesser of the per diem allowance paid for that day (if any) or the amount the federal government would pay its own employees for M&IE when they travel to the same locality.

The federal government publishes M&IE rates for every locality in the world. The M&IE rates may be obtained via the Internet. The CONUS (for *Continental United States*) and OCONUS (for *Outside CONUS*) rates can be found at www.gsa.gov. For 2012, the daily M&IE rates for CONUS ranged from \$46 to \$71, and for OCONUS ranged from \$1 to \$255. These rates may change on a monthly basis.

Itemized deductions

If a pilot has business travel expenses that the employer did not reimburse, a pilot may claim those expenses as an itemized deduction on his or her tax return. If a pilot claims this itemized deduction, Form 2106, *Employee Business Expenses*, must be completed. Form 2106, and all other IRS forms and publications, may be obtained at www.irs.gov or by calling the IRS at 1-800-TAXFORM.

To claim any business travel expense as an itemized deduction, a pilot must be able to substantiate the time, place, and business purpose of the business travel, as well as the amount of the expense. The time, place, and business purpose

must be substantiated with actual records, such as a pilot's logbook. The amount of the business expense must also be substantiated, but in the case of business meals and incidental expenses, the amount may be deemed substantiated (no written records will be required).

Other business travel expenses must be substantiated with records. (If the expense is less than \$75, the IRS will not require a receipt to substantiate the amount spent on any single purchase, such as a single meal expense; but this rule does not apply to lodging expenses, for which receipts are necessary even if the expense is less than \$75.)

Only 80 percent of the amount deemed substantiated is deductible in 2012, and then only to the extent that a pilot's aggregate miscellaneous itemized deductions (including business expenses) exceed 2 percent of his or her adjusted gross income. Note that union dues constitute deductible employee business expenses and count toward the 2 percent of adjusted gross income threshold.

Special rates for the transportation industry

The IRS sets special transportation industry rates that simplify the CONUS and OCONUS rates. For 2012, the transportation industry rate is \$59 for CONUS and \$65 for OCONUS. Pilots may use these rates to determine the tax deduction under the deemed substantiation method for all CONUS and/or all OCONUS travel in 2012.

For example, a pilot travels away from home on business within CONUS for 10 days in a month. The airline pays the pilot a \$65 per day per diem allowance for 10 days (\$650). The CONUS special M&IE rate



Seek competent tax advice

As with most matters concerning taxes, the federal law governing the taxation of pilots' expenses and per diem payments is complex and can sometimes be confusing. Of course, ALPA does not provide tax advice to individual members, and therefore all pilots are urged to obtain competent tax advice about applying the information in this article to their own situation. ➔

is \$59 per day. The amount deemed substantiated for the month is \$590, i.e., the lesser of the amount paid (\$650) or the total per diem allowance under the special CONUS rates (\$590).

If a pilot uses these special rates, the deduction may be somewhat less than if the standard M&IE rates are used, especially if the pilot usually travels to higher-cost or international destinations. ➔

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