



**HARDING, SHYMANSKI
& COMPANY, P.S.C.**

Certified Public Accountants
and Consultants



Business Travel Expenses: Per Diem vs Actual Expenses



If your employees travel for work purposes, it's important to understand the various methods of tracking and substantiating travel expenses so that you can maintain accurate records, control costs, and take advantage of potential tax benefits.

In this document, we'll provide an overview of business travel expenses, per diem allowances, and how they affect employees and employers.

Understanding Per Diem Rates vs. Actual Travel Expenses

A Per Diem is a daily allowance granted to employees for lodging, meals, and incidental expenses when they travel for business purposes. This allowance is given instead of paying actual expenses, making it easier for employees to manage their expenses while away from home.

While a Per Diem includes lodging, meals, and incidental expenses, it does not include transportation expenses. Therefore, the employer should pay transportation expenses directly or reimburse the employee.

Providing a per diem is not mandatory, and businesses can still choose to report actual allowable expenses if they maintain adequate records or other sufficient evidence. Despite the relative simplicity of a per diem compared to tracking actual expenses, there are some reasons an employer may prefer to track actual expenses.



One reason is that actual expenses might be lower than the per diem rates, resulting in cost savings for the business. In some cases, employees may be able to secure more affordable lodging or choose to eat at less expensive restaurants, leading to a lower overall cost for the trip.

Another reason is that businesses may wish to maintain more accurate records of employee travel expenses for internal budgeting, analysis, or cost control purposes. Tracking actual expenses can help a company identify trends, pinpoint areas where costs can be reduced, and provide more accurate data for forecasting future travel expenses.

Finally, substantiating actual expenses can provide additional tax benefits in certain situations. For example, if an employee's actual lodging and meal expenses are significantly higher than the per diem rate due to extenuating circumstances such as a last-minute trip or a conference in a high-cost city, the business may be able to claim a higher deduction by substantiating these actual expenses.

Who qualifies for Per Diem?

If you opt to use a per diem, the employee must:

- Travel more than 50 miles from their home;
- Be away for more than 12 hours; and
- Incur travel expenses while performing business-related activities.

It is important to note that per diem allowances should not be paid indefinitely. If an employee receives per diem for a period exceeding one year, the arrangement is no longer considered temporary, and any per diem compensation may be treated as taxable income.



Per Diem Substantiation Methods and Updated Rates

Per diem rates change yearly based on IRS Publication 1542, which provides the maximum per diem rate that can be used without treating part of the allowance as taxable income. Many employers refer to the General Services Administration per diem rate guide to calculate maximum per diem rates for destinations within the Continental United States. New per diem rates become effective on October 1 of each year and remain in effect through September 30 of the following year.

There are two per diem substantiation methods to consider: the per diem method and the high-low method.

The per diem method calculates reimbursement rates based on federal per diem rates for each locality. This can be more complex to manage and track due to the different rates for each destination.

The high-low method, on the other hand, simplifies this process by dividing localities into two categories: high-cost localities and other localities. As there are only two rates to manage, the high-low method can reduce the administrative burden associated with tracking and calculating travel expenses for multiple destinations, each with its own per diem rate. Additionally, the high-low method may offer more predictability, making it easier for businesses to budget for travel expenses.

The IRS has recently established new per diem rates for the high-low substantiation method. For the 2022-2023 fiscal year, the per diem rate for travel to high-cost localities is \$297, while the rate for other localities within the continental United States is \$204.

Moreover, the IRS has identified some destinations as high-cost localities for specific portions of the calendar year. For instance, some popular tourist destinations are considered high-cost localities during the portion of the year that would be considered “peak season” for the destination.



Record-Keeping and Expense Reports

While employees receiving per diem allowances are not required to submit receipts for approval, they must maintain a basic record of their expenses. Employees must file an expense report within 60 days; otherwise, the per diem payments become taxable income. The expense report should include the business purpose, date, place, trip details, and the proper rate for the location.

Requiring an expense report is considered an “accountable plan.” Non-accountable plans are where the company pays a flat rate, but the employee is not required to provide any report.

Tax Implications

Per diem allowances are not taxable to employees if the payment does not exceed the federal per diem rate and the employee provides an expense report or receipts to their employer. However, if the employee is paid more than the federal rate, the excess is taxable to the employee. Also, if the allowance is provided under a non-accountable plan, the payments are taxable.

Deductibility of Travel Expenses for Employers

Employers can fully deduct lodging expenses, but the IRS limits the amount paid for meals and incidentals to 50%. Under an accountable plan, employers must treat 40% of the per diem as meals and incidentals, meaning that 20% of the employer-paid per diem is considered meals and incidentals and is non-deductible. The other 80% is deductible.

If the employee has a non-accountable plan and is required to include the amount in their compensation, then it is fully deductible to the employer.



Final Thoughts

This document is intended to provide a brief overview of tracking and substantiating travel expenses and is not a substitute for speaking with one of our expert advisors. If you would like to discuss how to handle employee travel expenses for your business, please contact our office.

We'd be happy to discuss your specific situation.



About Harding, Shymanski & Co.

Harding, Shymanski & Company, P.S.C. is a public accounting firm with offices in Evansville, Indiana, and Louisville, Kentucky. We are one of the largest accounting firms in Southern Indiana and Kentucky, providing experienced professionals who look beyond the numbers to the heart of complex issues.

Our clients range in size from small proprietorships to billion-dollar corporations, from closely-held and family-owned businesses to publicly traded firms. They span nearly every industry: finance, communications, construction, mining, manufacturing, non-profit, wholesale, retail, transportation, government, healthcare, and service. They all have one thing in common: they count on our expertise to capitalize on their opportunities and make the best of their challenges.



1-800-880-7800



info@hsc CPA.com



www.hsc CPA.com

Contact:

Kyle Winger

p - 812-491-1412

kwinger@hsc CPA.com

Kathy Ettensohn

p - 812-491-1384

kettensohn@hsc CPA.com

