

2007 Small Business Resource Guide

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Starting Your Business

What are Business Expenses

Travel & Entertainment

Travel expenses defined. For tax purposes, travel expenses are the ordinary and necessary expenses of traveling away from home for your business, profession, or job. An ordinary expense is one that is common and accepted in your field of business, trade, or profession. A necessary expense is one that is helpful and appropriate to your business. An expense does not have to be indispensable to be considered necessary. However, you cannot deduct expenses to the extent they are lavish or extravagant.

You will find examples of deductible travel expenses in [Table 1](#) of Publication 463.

Traveling away from home. You are traveling away from home if:

1. Your duties require you to be away from the general area of your tax home (defined later) substantially longer than an ordinary day's work, and
2. You need to get sleep or rest to meet the demands of your work while away from home. This rest requirement is not satisfied by merely napping in your car. You do not have to be away from your tax home for a whole day or from dusk to dawn as long as your relief from duty is long enough to get necessary sleep or rest.

Generally, your "tax home" is your regular place of business or post of duty, regardless of where you maintain your family home. It includes the entire city or general area in which your business or work is located.

For more information about travel expenses and the standard meal allowance, see [Publication 463](#).

You may be able to deduct business-related entertainment expenses you have for entertaining a client, customer, or employee.

To be deductible, the expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your field of business, trade, or profession. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be indispensable to be considered necessary.

In addition, the entertainment expense must meet one of two tests:

1. Directly-related test, or
2. Associated test.

To meet the directly-related test, you must show that the main purpose of the combined business and entertainment was the active conduct of business, you did engage in business with the person during the entertainment period, and you had more than a general expectation of getting income or some other specific business benefit at some future time.

To meet the associated test, you must show that the entertainment is associated with your trade or business, and directly precedes or follows a substantial business discussion.

Even if you meet all the requirements for claiming a deduction for meals and entertainment expenses, the amount you can deduct may be limited. Generally, you can deduct only 50% of your unreimbursed meals and entertainment expenses.

[*Table 2 of Publication 463, When are Entertainment Expenses Deductible?*](#)

Important References:

[Publication 463](#) Travel, Entertainment, Gift, and Car Expenses

[Publication 535](#) Business Expenses