



Tax Update August 2022

Overseas Travel Costs

Inland Revenue recently released new guidance on the deductibility of overseas travel costs. By in large the tax treatment has not changed, but as the borders re-open we thought it was timely to cover off the tax treatment of some of the more common scenarios (Examples below have been adapted from the IRD publication)

Example 1- Travel overseas for Business & Leisure

Bruce owns a consulting business. Earlier this year he went to Europe for the Tour De France and to negotiate contracts for his business. Bruce was overseas for 42 days and spent 11 days on business.

Bruce would have gone to the Tour de France regardless of whether he went over for business. However, he needed to go overseas at some stage during the year for business. Before he left, Bruce contacted his business contacts overseas and arranged to meet them.

Bruce travelled overseas for two different purposes. A reasonable apportionment is to allow a deduction for 11/42 of the cost of the airfare, and the full cost of the 11 days of accommodation and associated costs while on business.

Example 2 - Incidental purpose

Hayden is the owner-operator of an importing business. He was running short of stock, so he went to Australia to buy stock. While there, Hayden took the opportunity to spend a day with his old friend Rene. Hayden spent a total of three days in Australia, one day on holiday and two days on business.

In Hayden's situation, the holiday aspect of the trip is a trivial or minor purpose to the main business purpose. Hayden visited Rene only because he was there for business and took the opportunity to see him.

A reasonable apportionment would be to allow a deduction for the total cost of the airfare, and the cost of two days of accommodation for business.

Example 3- Main Purpose of Travel

Jordon is a self-employed travel consultant. He planned a holiday to America. While he was overseas, he took the opportunity to promote his tourism business at some shopping malls.

In Jordon's situation, he decided to promote his business only once he had arrived in America. This means that when Jordon purchased the airline ticket, his only purpose was to go on holiday. Therefore, no deduction is allowed. However, the Commissioner would allow a deduction for the accommodation costs while Jordon was on business.

Companion travel expenses?

In most cases, a companion's travel expenses will not be deductible. If the companion is accompanying the taxpayer simply for companionship or to attend social functions, then this expenditure will not have a sufficient nexus with the taxpayer's business or income-earning activity.

However, a deduction may be permitted where the companion supports the taxpayer, to a reasonably substantial degree, in the business being undertaken.

The companion does not need to be an expert in the affairs of the business, but they do need some knowledge of the business being undertaken or they must possess some special skill or expertise to be able to provide support in a material way. If these qualities are present, then the Commissioner considers a sufficient nexus will exist between the companion's travel expenses and the taxpayer's business or income-earning activity.

Final note- Record Keeping

With any overseas business trip it is vitally important to keep detailed records of your itinerary and costs incurred so we can determine the appropriate tax treatment.

Kind Regards

The team at Auckland Chartered Accountants

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