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Revenue Ruling 56-168

Clarification of the position of the Service with respect to the deductibility of expenses of taxpayers and members of their families in making business trips and attending business or professional conventions, especially where opportunities for personal vacationing are also involved.

The question frequently arises whether the expenses of taxpayers and members of their families in making business trips and attending business or professional conventions are deductible for income tax purposes, especially where opportunities exist for personal vacationing in connection with the trip or convention. The purpose of this Revenue Ruling is to set forth guides for taxpayers and field officers of the Internal Revenue Service in determining the allocation and deductibility of such expenses.

Section 162(a) of the Internal Revenue Code of 1954 provides for the deduction of all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including traveling expenses (including the amount expended for meals and lodging) while away from home in pursuit of a trade or business. Only those expenses which are ordinary and necessary in the conduct of the business and are directly attributable to it may be deducted. See sections 39.23(a)-1, 39.23(a)-2(a), and 39.23(a)-2(f) of Regulations 118, which are applicable by virtue of Treasury Decision 6091, C. B. 1954-2, 47. Section 262 of the 1954 Code provides, with exceptions not here material, that no deduction shall be allowed for personal, living or family expenses.

Where opportunities exist for personal vacationing in connection with business trips or the attendance of business or professional conventions, and especially where the taxpayer is accompanied by one or more members of his family, it is apparent that examining officers of the Service have a duty to give especially careful scrutiny to deductions taken in returns for the expense involved in order to assure against abuse of the deduction permitted by section 162(a) of the Code. In those cases where a business purpose is served, it is also necessary to determine what portion of the total expense is deductible as an ordinary and necessary business expense and what portion represents nondeductible personal or living expenses.

In those cases where a taxpayer makes a business trip such as attending a convention or other business meeting and, as an incident of such trip, engages in some personal activity such as sightseeing, social visiting or entertaining, or other recreation, that part of the total expense of the trip which is directly attributable to the taxpayer's business will be treated as deductible notwithstanding the incidental personal activity. That part of the total expense which is properly allocable to such incidental personal activities will be treated as nondeductible personal or living expenses. Where the purposes of a trip are primarily personal, the entire expense involved will be treated as nondeductible personal or living expenses notwithstanding that the taxpayer engages or participates in some incidental activity related to his business.

Where a taxpayer's wife accompanies him on a business trip, those expenses attributable to her travel are not deductible unless it can be adequately shown that the wife's presence on the trip has a bona fide business purpose. Rev. Rul. 55-57, C. B. 1955-1, 315. The wife's performance of some incidental service does not cause her expenses to qualify as deductible business expenses. The same rules are applicable with respect to any other members of the taxpayer's family who accompany him on such a trip.

The application of the foregoing guides may be illustrated by the following examples:

(1) A taxpayer makes a business trip for the purpose of attending a convention held in a coastal city. During the period of the convention, he also engages in local sightseeing, entertaining, and visiting unrelated to his business. He also arranges to take a post-convention cruise made available to individuals attending the convention, the purpose of which is primarily recreational although some incidental sessions are scheduled for lectures, discussions, or exhibitions related to the business interests of the group holding the convention. The expenses paid for the local sightseeing, entertaining, and visiting and the entire cost of the post-convention cruise are deemed to represent nondeductible personal expenses.

(2) A taxpayer's wife accompanies him on a business trip, which may include his attendance of a business or professional convention. She occasionally types notes or performs some similar service and accompanies him to luncheons and dinners. The performance of such services does not establish that her presence is necessary to the conduct of the taxpayer's business.

(3) Under the circumstances involved in example (2) above, the cost of transportation and lodging exceeds the cost for single fares and accommodations but is less than twice the single rate. The amount deductible as an ordinary and necessary business expense on account of the transportation and lodging is the amount directly related to the business purpose of the trip, that is, the cost at the single rate for similar accommodations. The amount by which the total expense is increased because of the wife's presence and the entire cost of the wife's meals are not deductible.