

Fact sheet: Travel expenses, domestic and international

You may be able to claim an income tax deduction for travel expenses where they have a connection with deriving assessable income or carrying on a business. A deduction is allowed for work-related travel including:

- travel between business places
- travel overseas
- travel to acquire plant

A deduction is not allowed for travel between your home and place of business unless your residence is used as a work base.

You cannot claim for costs that are of a private or domestic nature, of a capital nature, or incurred in deriving exempt income or income from employment. For more information on deductions and reimbursements to employees for travel expenses, we can send you our Travel allowances fact sheet.

Costs are usually deductible in the income year you incurred them. However, where some costs are prepaid, you may be able to claim deductions over multiple income years. This applies to advance bookings for travel and accommodation over \$14,000, or bookings that are for more than 6 months after your balance date.

The best way to ensure that you have sufficient proof of the connection between the travel expense and your business is to record a memo of the nature of the trip and its relationship to your business with the relevant invoices/receipts.

Travel and Capital Expenses

Generally, travel expenses relating to the purchase of business assets is regarded as capital and looked upon as part of the cost of the machinery.

However, a deduction is allowed for travel expenses undertaken to study new machines or processes.

Overseas Travel Expenses

Overseas travel expenses (other than meal costs) are deductible to the extent that they are incurred in relation to your business. Any element of holiday expenditure is not deductible.

Make sure you have adequate documentation supporting the business nature of your travel expenses. Complete a detailed travel itinerary and diary keeping track of:

- letters of introduction
- business contacts/cards
- firms visited
- business conducted
- diversions from the business itinerary for personal purposes
- all items of expenditure, as well as the total cost.

Meal costs incurred overseas when on business may be limited to the extra costs incurred over and above normal costs for the meal (that is, restaurant meals vs normal dinner meals).

What if I'm mixing business with a holiday?

Where the trip contains a private or capital element, you may need to apportion the costs between what is deductible and what is not. It generally works this way:

- 100% deduction — where the holiday aspect is incidental to the work element
- apportionment — where there are two purposes for the trip, both truly separate

- no deduction — where the work aspect is incidental to the holiday

A simple way to apportion costs is based on the number of days spent on business as a fraction of the total number of days spent on travel. Inland Revenue will consider other apportionment methods if they consider them reasonable in the circumstances, such as situations where specific expenses can be attributed to either business or personal travel.

For travel by group tour, it used to be the case that the tour organiser supplied Inland Revenue with the necessary details and Inland Revenue could give overall approval in principle and tended to accept the individual's travel expenses without further question. This is no longer the case.

Taxpayer's Spouse/family members accompanying

Where a taxpayer travels for business, accompanied by spouse or family members, in most cases, the 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.

Expenses for a taxpayer's companion will be deductible if there is a sufficient connection between expenses incurred and the taxpayer's income-earning or ability to carry on the business. Inland Revenue will consider whether the companion has either knowledge of the business being undertaken or possess specialist skill or expertise to be able to provide support in a material way. If this exists, Inland Revenue will view the expenditure as having a sufficient nexus with the taxpayer's business or income-earning activity.

Any expenditure which is of a holiday or private nature should not be claimed. Be aware that for expenses incurred within New Zealand, the rules for entertainment expenses may apply.

Investor's travel expenses

In some cases, an investor may be able to claim a deduction for travel expenses incurred in connection with the management or administration of investments. The investor would need to show that there is a sufficient connection between the travel expenses and the investment business to support the claim.

Our recommendation

It is best to consider the taxation implications of business travel before the trip rather than on your return to New Zealand!

We suggest you make an appointment to see us so that we can go through your travel expenses claim.

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Important: Clients should not act solely on the basis of the material contained in this article. Items herein are general comments only and do not constitute nor convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This article is issued as a helpful guide to our clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.