The California State University
OFFICE OF THE CHANCELLOR

To: **California State University (CSU) Tax Coordinators**

From: **CSU Chancellor's Office, Systemwide Financial Standards & Reporting**
Roberta McNiel – Associate Director, Financial Systems, Statutory Reporting & Tax Administration
Bryn Siegel – Systemwide Tax & Legislative Coordinator

CC: Financial Officers Association (FOA) Members
Financial Standards Advisory Committee (FSAC) Members
Mary Ek – Assistant Vice Chancellor/Controller
Jean Gill – Assistant Controller, CSU Chancellor's Office
Sedong John – Director, Systemwide Financial Standards & Reporting
Kristina Randig – Associate Director, Management & Accounting Practices Office
Accounts Payable Managers

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Re: International Travel Policy – Taxability of Mixed Personal/Business Travel

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This communication is provided to alert campuses to an issue with Section XIII, Part F, Taxability of International Travel with Personal Use, in the *CSU Travel Procedures* (G-001, Final as of 1-14-2016) (page 37). The section will be updated with the next release of the procedures. In the interim, the guidelines for assessing international business travel discussed in the ***Updated Guidelines*** section below should be followed.

Updated Guidelines

Treasury Regulation section 1.274-4 provides rules for the taxability of international travel when there is both a personal and a business purpose. Internal Revenue Service (IRS) Publication 463 (2015), page 7, summarizes these rules. Generally, the IRS allows a deduction of all travel expenses to get to and from a business destination when the travel is international and considered entirely for business. When an employee spends a portion of his/her time on personal travel, then an analysis needs to be performed to determine whether the personal portion of the trip will make the trip partially taxable.

The trip is considered entirely for business if ***<u>at least one</u>*** of the following four exceptions is met:

1) The employee does not have *substantial control* over arranging the trip;
2) Travel outside of the U.S., combining business and personal time, is for a week or less;
3) Less than 25% of total time is spent on personal activities;
4) Vacation is not a major consideration in planning the trip.

Under exceptions (1) and (4), the trip will be deemed entirely for business purposes if a) the employee did not have substantial control over arranging the trip, or b) the employee can establish that he/she did not consider a vacation as a major consideration in arranging the trip.

The IRS defines “substantial control” as follows: *The fact that you control the timing of your trip does not, by itself, mean that you have substantial control over arranging your trip. You do not have substantial control over your trip if you are an employee who was reimbursed or paid a travel expense allowance <u>and</u> are not related to your employer, or <u>are not a managing executive.</u>* A “managing executive” is *an employee who has the authority and responsibility, without being subject to the veto of another, to decide on the need for the business travel.*

CSU Policy

Section XIII, Part F, of the *CSU Travel Procedures* provides the following instructions:
International travel frequently consists of both business and personal components. According to the IRS, there is a taxable event if BOTH of the following conditions are met:
1) The total period of the trip is longer than one week,
and
2) At least 25% of the trip is personal.

In the event that both conditions are met, a portion of the common business expenses that are incurred by the traveler, including airfare, is taxable to the traveler. This requirement applies only to travel outside the 50 United States and the District of Columbia. When a travel day consists of both business and personal time, the day will be classified as a business day in order to determine the percentage of personal time associated with the trip
Travel associated with sabbaticals will be treated as official University business.
See Appendix H for examples based on international travel with a personal component.

Analysis and Conclusion
As stated above, there are four exceptions to the general rule for allocating international travel expenses between personal and business use. If just one of these exceptions applies, the travel costs are nontaxable to the employee. The CSU policy, on the other hand, provides only two exceptions, BOTH of which are required to apply before the costs become non-taxable to the employee. Because the policy no longer accords with current law, we are instructing campuses to follow the ***Updated Guidelines*** section above, in accordance with Treasury Regulation 1.274-4, when determining the taxability of mixed business and personal international travel expense reimbursements. An employee's international travel will be fully nontaxable when any one of the 4 exceptions applies, including 1) the employee did not have substantial control over arranging the trip, 2) travel outside of the U.S. was for one week or less, combining business and personal time; 3) less than 25% of total time outside of the U.S. was spent on personal activities; or 4) the employee can establish that he/she did not consider a vacation as a major consideration in arranging the trip. Additionally, Appendix H will be removed and updated with examples consistent with those provided in Treasury Regulation 1.274-4.

This update should be implemented immediately by campus departments reimbursing their staff for international travel. Questions concerning this update can be directed to Bryn Siegel (bsiegel@calstate.edu; 562-951-4597).