

Exactly What is a Tax Home and Why Do I Need One?

One great benefit of travel assignments is tax free housing, travel reimbursements and in some cases, meal allowances. Despite the information offered by other travelers and even some travel companies, these benefits depend upon your “tax home.” The first thing to understand about a tax home is that it is not a “permanent residence”. A permanent residence is where a person has financial and legal ties. It is the town which the individual probably considers home and periodically returns between assignments. They may stay with family members or rent a new apartment each time they return. A tax home goes another step further, by requiring the maintenance of a livable residence at the permanent residence. This residence can be a house, apartment, or a rented room, but there must be evidence that there are regular expenses in maintaining this arrangement. The IRS allows deductions for housing, meals and travel when there is a clear *duplication* of living expenses while away from home overnight on business. The expenses do not need to match; they simply need to be duplicated in the course of producing income at a temporary location. By this definition, many travelers have a permanent residence, but not all have tax homes. This difference often leads to three common mistakes:

- Claiming a family member’s address as a tax home without any significant contribution to the care and maintenance of that dwelling. Unless there is evidence of a rental arrangement where funds are exchanged, and the rental income is claimed on the others tax return, this does not qualify as a tax home. If the IRS examined a traveler for proof of a tax home, rental contracts, payment records, cancelled checks and tax returns would need to be submitted for evidence, otherwise, any travel deductions claimed on a return would be denied. A rental arrangement cannot be at a nominal amount that does not reflect what a similar situation would cost. Sending money for utilities may be a nice way to reimburse a family member for their mailing services, but the amount is too variable for proof of a tax home. A good way to determine this “fair market value” of a rental arrangement is to check the local classifieds for similar offerings in your area.

- Claiming a storage unit as proof of a residence. A storage unit does more to prove the lack of a residence than anything else!
- Completely renting your residence. If a traveler rents his home or apartment while away on assignment, it needs to be a partial rental where the traveler maintains a portion of the dwelling for themselves, storing their personal belongings and actually living there when off assignment. Otherwise, the residence is forfeited since it is contractually occupied by another person.

These rules may be overwhelming for some travelers. A tax home can be worth up to 4000\$ a year in tax savings, but the extra time and expenses may not be worth it. If the maintenance of a tax home is too much trouble, all should not be considered lost. With the higher pay and opportunity to explore, there is no comparison to the experience and satisfaction gained in traveling. It doesn't make much sense to live your whole life around a tax deduction either. Many travelers have shed themselves of this burden and become what the IRS calls an "itinerant" worker. An itinerant worker's tax home follows them to wherever they are, the housing and travel reimbursements are treated as taxable income, and the meal deductions are forfeited, but the traveler is free to go as they please.

There are other factors involved in a tax home, but it is important to know these basic rules. When a traveler signs a permanent residence form from a travel company, it is usually ASSUMED that the traveler understands the tax laws. Travel companies are not in the business of policing their employee's tax home. Traveler beware!