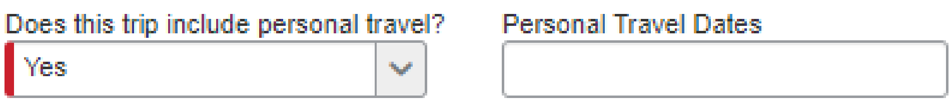
Taxability of International travel when personal travel is included. A portion of the business expenses becomes taxable.

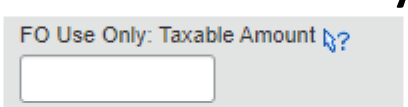
1. On an employee travel report header:

a. Please select **Yes** for the field **Does this trip include Personal travel?**

b. Enter the dates in the **Personal Travel Dates field.**

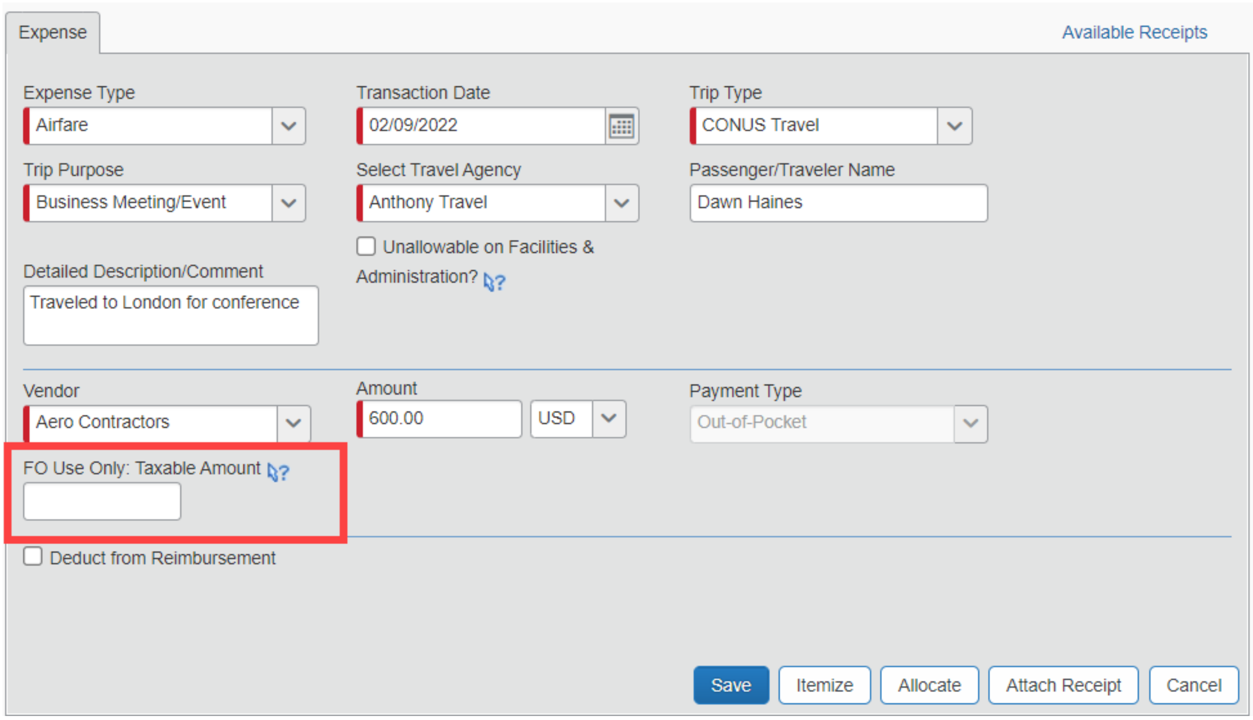


2. Use the Expense type **Airfare** to enter the taxable amount for all taxable elements of the trip.
3. Enter the amount that the employee should be taxed in the field **FO Use only Taxable Amount.**



NOTE**this is where the taxable portion of **ALL** business expenses for the trip is entered. (full screenshot below)

The amount is automatically sent to payroll (monthly) **so they can tax the employee on the portion of airfare and business expenses that is taxable.** ***(this eliminates the need to email payroll for taxable amount)***



INFORMIATON FOR CALUCLATING THE TAXABLE AMOUNT, from the Penn State Travel Policy:

International travel frequently consists of both business and personal components. According to the IRS, there is a taxability issue if BOTH of the following conditions are met:

1. The total period of the trip is longer than one week, and

    a. IRS CALCULATION RULE: For purposes of establishing whether the trip was more than seven days, do not count the day in which the person leaves the United States. However, do count the day in which the individual returns to the United States. Thus, in counting days, look at when the person leaves the United States to when he/she returns to the United

States, but do not count the day in which the person leaves the United States.

2. At least 25 percent of the trip is personal

b. IRS CALCULATION RULE: Once you have established that the foreign travel is more than seven days, the calculation of the percentage of personal time should include all days that the person is outside the United States, including travel days en route.

Example: Individual leaves New York on Dec. 1, arrives in Japan on Dec. 2, leaves Japan on Dec. 10 and arrives in NY on Dec. 11, there are 10 days for purposes of calculating whether the trip exceeded seven days (Dec. 2 – 11). However, all eleven days (Dec. 1-12) are counted in determining the personal time percentage.

In the event that both conditions are met, a portion of the common business expenses that are reimbursed to the traveler, including airfare, is taxable to the traveler. This requirement applies to travel outside the 50 United States and the District of Columbia.

NOTE** that if a trip includes non-Penn State business travel, such as personal consulting, this can be so noted for purposes of taxes, but the airfare and other travel costs incurred must be appropriately allocated to the non-business travel and the portion related to non-Penn State business will not be payable or reimbursable by Penn State. See the section on "Travel Compensated by a Third Party" in the Overview.

For the purposes of calculating the percentage of business and personal time when a travel day consists of both business and personal time, the day would be classified as a business day. For purposes of this policy, sabbaticals are treated as business. For more information, review the following examples:

Illustrations of International Travel Combining Business and Personal Expenses

Trip with Taxable Element

An employee travels to London for 10 days, of which 7 days are business related and 3 days are personal; 70 percent of the trip is business and 30 percent is personal. The traveler is reimbursed for airfare and seven days of meals and lodging. The other three days of meals and lodging are considered personal and are not reimbursed. Since the trip was longer than one week and at least 25 percent personal, the employee will be taxed on 30 percent of the airfare considered personal under IRS regulations.

Trip with No Taxable Element

An employee travels to London for 10 days, of which 8 days are business related and 2 days are personal; 80 percent of the trip is business and 20 percent is personal. The traveler is reimbursed for airfare and eight days of meals and lodging. The other two days of meals and lodging are considered personal and are not reimbursed. The cost of airfare, even though it is reimbursed to the traveler, is not taxable to the traveler since the personal component is not equal to or greater than 25 percent of the trip.