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*TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION*

*Office of Inspections and Evaluations*



*Internal Revenue Service's  
Executive Long-Term Taxable Travel*

**December 31, 2013**

**Reference Number: 2014-IE-R005**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

December 31, 2013

**MEMORANDUM FOR CHIEF FINANCIAL OFFICER**

**FROM:** R. David Holmgren *R. David Holmgren*  
Deputy Inspector General for Inspections and Evaluations

**SUBJECT:** Final Inspection Report – Internal Revenue Service’s Executive  
Long-Term Taxable Travel (# IE-13-016)

This report presents the results of our inspection to determine whether the Internal Revenue Service (IRS) has established guidance and procedures so that senior executives and their managers know when overnight long-term travel is subject to taxes.<sup>1</sup>

*Synopsis*

Per the Internal Revenue Code<sup>2</sup> and the Revenue Ruling 93-86<sup>3</sup>, an employee who performs a temporary duty travel assignment exceeding one year at a single or principal location is subject to income taxation of his/her travel expense reimbursements. Compensation for services (including fees, commissions, fringe benefits, and similar items) are includible in gross income. Similarly, remuneration for services paid by the employer to an employee are wages subject to employment taxes, which generally include income tax withholding and the Federal Insurance Contributions Act taxes.

In Fiscal Year (FY) 2011 and FY 2012, there were 351 and 373 executives in the IRS, respectively.<sup>4</sup> In FY 2011, the IRS executives received approximately \$4.8 million in travel

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<sup>1</sup> The criteria used to determine the taxability for long-term local travel are different from the criteria used for overnight travel. We did not include local travel in the scope of this review.

<sup>2</sup> Internal Revenue Code Section 162(a)(2).

<sup>3</sup> Rev. Rul. 93-86, 1993-2 C.B. 71, 1993-40 I.R.B. 4.

<sup>4</sup> The number of executives for each fiscal year was calculated based on the number of executives on roll as of the end of the fiscal year and the number of executives who worked during the fiscal year but separated before the end of the fiscal year.



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reimbursements. In FY 2012, executive travel reimbursements decreased to about \$4.7 million.<sup>5</sup> We analyzed travel information from the GovTrip<sup>6</sup> and the Integrated Financial System<sup>7</sup> for IRS executives to determine whether executive travel appeared to be long term and met the criteria of long-term taxable travel (LTTT) status.

Overall, we found that the IRS has policies in place to help senior executives and their managers know when overnight long-term travel reimbursements are subject to employment taxes. At the beginning of Calendar Year 2012, the IRS instituted a quarterly review process to identify potential LTTT. In April 2013, the IRS instituted a new interim travel policy that reminds executives to comply with the LTTT requirements.

While the reviews conducted by the Beckley Finance Center<sup>8</sup> have identified cases where employees may not have reported the LTTT, we noted that the IRS has not documented the procedures for conducting the reviews. Additionally, the methodology for conducting the reviews could be enhanced to increase the likelihood of identifying unreported LTTT.

We reviewed the travel records for 31 executives, less than 10 percent of the IRS executives employed, to determine whether their travel appeared to be properly classified as taxable or nontaxable. We found that the tax classification of travel for nine executives appeared to be incorrect based on their travel patterns and the IRS's validation, and for three executives, the classification was not made in a timely manner as required by Internal Revenue Manual 1.32.11.9, *Taxable Travel Reimbursement*.<sup>9</sup> Consequently, not all executives who were in a LTTT status were correctly and/or timely classified as such; therefore, the IRS did not withhold the appropriate amount of taxes on the travel reimbursements paid to some executives.

Without an effective periodic assessment and management review of the executives' travel activities, the IRS cannot verify that its executives' travel expenses are properly classified as LTTT when they should be. The inaccurate reporting of the LTTT resulted in the executives' potentially underreporting income, Federal, State, Medicare, and Federal Insurance Contributions Act taxes.

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<sup>5</sup> Because some executives were not executives for the entire fiscal year, travel expenses may include travel for trips made as nonexecutives.

<sup>6</sup> GovTrip is a computer application and database that provides IRS travelers with automated travel planning and reimbursement capabilities. The system also includes authorization, reservation, and vouchering capabilities.

<sup>7</sup> The Integrated Financial System contains the IRS's core financial systems, including expenditure controls, accounts payable, accounts receivable, general ledger, and budget formulation.

<sup>8</sup> The Beckley Finance Center is part of the Chief Financial Officer's Financial Management Office. It processes all administrative accounts payable, accounts receivable, and collections, and prepares and reconciles all financial reports and accounts.

<sup>9</sup> The Internal Revenue Manual is the IRS's primary official source of instructions to staff relating to the administration and operations of the IRS. It contains the directions employees need to carry out their operational responsibilities.



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*Recommendations*

The Chief Financial Officer should modify and document procedures for conducting periodic reviews to determine whether employees and managers accurately determine and report the taxability of long-term travel. Furthermore, the Chief Financial Officer should annually inform or remind IRS employees of the policies and procedures related to LTTT and travelers' and managers' responsibility to accurately determine whether travel may be taxable.

*Response*

IRS management agreed with the recommendations. The IRS Chief Financial Officer plans to modify and document standard operating procedures for conducting periodic reviews to determine whether employees and managers accurately determine and report the taxability of long-term travel. In addition, the Chief Financial Officer plans to annually issue a reminder to employees reemphasizing existing LTTT procedures and reminding travelers and managers of their responsibility to accurately determine whether their travel may be taxable. Management's complete response to the memorandum is included in Appendix VII.

Please contact me at (202) 927-7048 or Kevin P. Riley, Director, Office of Inspections and Evaluations, at (972) 249-8355 if you have questions.



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*Abbreviations*

BFC	Beckley Finance Center
CFO	Chief Financial Officer
FICA	Federal Insurance Contributions Act
FY	Fiscal Year
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
LTTT	Long-Term Taxable Travel
TIGTA	Treasury Inspector General for Tax Administration



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### *Background*

In Fiscal Year (FY) 2011 and FY 2012, there were 351 and 373 executives in the Internal Revenue Service (IRS), respectively.<sup>1</sup> In FY 2011, the IRS spent approximately \$4.8 million for executive travel. In FY 2012, spending for executive travel decreased to about \$4.7 million.<sup>2</sup> Our previous review of executive travel within the IRS showed that, overall, executive travel does not appear to be excessive.<sup>3</sup> However, we noted that a small number of executives had extremely high travel expenses compared to the rest of the executives and that several executives frequently travel to the Washington, D.C., area to conduct day-to-day operations. Additionally, we identified 14 executives in FY 2011 and 11 executives in FY 2012 who traveled to a single destination more than 125 days in a fiscal year—more than half of the 250 business days available to work. The cost and frequency of travel for some executives indicate that they may not live in the best location to economically accomplish their roles and responsibilities. Additionally, travel reimbursements related to this level of travel could be taxable if the travel meets the requirements outlined in the Internal Revenue Code<sup>4</sup> and the Internal Revenue Ruling 93-86.<sup>5</sup>

***An employee who performs temporary duty travel assignment exceeding one year at a single or principal location is subject to income taxation of his/her travel expense reimbursements.***

The Chief Financial Officer (CFO) is responsible for IRS travel policy and accomplishes this responsibility in part by reviewing and interpreting Government travel regulations and developing and maintaining IRS travel procedures. The IRS Internal Revenue Manual (IRM)<sup>6</sup> documents the requirements for taxable travel reimbursements, and the IRM is consistent with the Internal Revenue Code and Internal Revenue Ruling 93-86.

A Treasury Inspector General for Tax Administration (TIGTA) report of taxable travel within the IRS revealed that IRS employees did not always identify travel expenses as long-term taxable

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<sup>1</sup> The number of executives for each fiscal year was calculated based on the number of executives on roll as of the end of the fiscal year and the number of executives who worked during the fiscal year but separated before the end of the fiscal year.

<sup>2</sup> Because some executives were not executives for the entire fiscal year, travel expenses may include travel for trips made as nonexecutives.

<sup>3</sup> Treasury Inspector General for Tax Administration, Ref. No. 2013-IE-R007, *Analysis of Executive Travel Within the Internal Revenue Service* (Jul. 2013).

<sup>4</sup> Internal Revenue Code Section 162(a)(2).

<sup>5</sup> Rev. Rul. 93-86, 1993-2 C.B. 71, 1993-40 I.R.B. 4.

<sup>6</sup> The IRM is the IRS's primary official source of instructions to staff relating to the administration and operations of the IRS. It contains the directions employees need to carry out their operational responsibilities.



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travel (LTTT).<sup>7</sup> Corrective actions related to TIGTA's recommendations included issuing policies and procedures for taxable travel and making them available on the CFO's travel and relocation website and issuing a memorandum to all heads of office reemphasizing the policies and procedures associated with the classification of LTTT situations.

We initiated this review as a follow-up to our review related to overnight executive travel. The overall objective of this review was to determine whether the IRS has established guidance and procedures so that senior executives and their managers know when overnight long-term travel is subject to taxes.<sup>8</sup> Therefore, this review is primarily focused on the taxability of overnight travel for employees who were executives in FYs 2011 and 2012.

This review was performed in the Office of the CFO at the IRS National Headquarters in Washington, D.C., during the period June through September 2013. We conducted this inspection in accordance with the Council of the Inspectors General for Integrity and Efficiency Quality Standards for Inspections. Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>7</sup> TIGTA, Ref. No. 2002-10-107, *Controls Need to Be Strengthened Over the Internal Revenue Service's Taxable Travel Reporting* (Jun. 2002).

<sup>8</sup> The criteria used to determine the taxability for long-term local travel are different from the criteria used for overnight travel. We did not include local travel in the scope of this review.





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## *Results of Review*

The IRS has established adequate guidance defining when travel is taxable and employees' and managers' responsibility to make that determination; however, the guidance was not consistently followed. Furthermore, while the CFO's staff has established compliance procedures to review LTTT classifications, the procedures should be enhanced and fully documented. As a result, we found executive travelers who appeared to have had taxable travel that was not properly classified as LTTT.

### ***Taxable Travel Procedures and Controls Are in Place; However, Controls Should Be Enhanced***

IRM 1.32.11, *Servicewide Financial Policies and Procedures, Official IRS City-to-City Travel Guide*, specifically provides guidance for taxable travel and clearly defines overnight LTTT as travel away from home for a long enough period of time that is not considered temporary. There are two situations that can be overnight LTTT:

1. Travel to a single location that is expected to last more than one year.
2. When employees perform their principal duties the majority of the time in a location away from their official station, and this arrangement is expected to last indefinitely or long enough that the new location becomes their main work location.

See Appendix IV for the overnight LTTT requirements. The tax treatment of overnight travel expenses is governed by Revenue Ruling 93-86 and Internal Revenue Code Section 162(a)(2) and involves an analysis of the employee's "tax home." See Appendix V for further details.

Following are examples of different travel scenarios:

***Example 1.*** After the first three months of the current calendar year, Employee A is asked to perform a temporary assignment at New Carrollton, Maryland, for two months. Employee A performs the two-month assignment while in overnight travel status, returning to his/her residence in Atlanta, Georgia, on weekends. Based on the facts, the reimbursement received for the two-month temporary assignment will not be taxable income because Employee A's tax home is still Atlanta for the current calendar year.

***Example 2.*** The facts are the same as in Example 1, except that following the two-month assignment, Employee B continued going to New Carrollton to and from his/her residence and expects to continue this pattern for an undefined period. Here, when the employee agrees to continue to work in New Carrollton, there is a realistic expectation that the employment in a single location will last for more than one year. The employee is no longer temporarily away



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from home, and the travel expense reimbursements are taxable at the point the expectation changes.

**Example 3.** Employee C lives in Cincinnati, Ohio, and regularly travels to Miami, Florida, for eight months each year and the other four months travels to Dallas, Texas. Miami is the employee's main place of work because he/she spends most of his/her time there and earns most of his/her income there; thus, the travel reimbursements for the Miami location are taxable.

IRM 1.32.11.9, *Taxable Travel Reimbursement*, requires that a manager who knows, or can reasonably expect, that an employee will receive a LTTT assignment must ensure that the LTTT is authorized on Form 12654, *Authorization for Long-Term Taxable Travel*, and that the Form 12654 is issued and signed by the manager and employee each calendar year of the LTTT assignment. Similarly, the IRM requires that employees must ensure that they use the appropriate purpose code (which indicates the expenses claimed are taxable) and submit their vouchers via GovTrip<sup>9</sup> promptly. The taxable situation results in the IRS withholding appropriate taxes from the employee's travel reimbursement. The employee will receive a Form W-2, *Wage and Tax Statement*, from the IRS for the amount of taxable reimbursements received and amounts withheld for taxes.

The IRS pays an Income Tax Reimbursement Allowance to employees incurring an additional tax liability as a result of long-term travel reimbursements. The Income Tax Reimbursement Allowance is designed to reimburse employees for Federal, State, and local income taxes. It does not reimburse employees for Federal Insurance Contributions Act (FICA) taxes or Medicare taxes.

Until January 2012, the IRS did not have a control in place to ensure that travelers and managers properly identify and report the LTTT. In 2011, the IRS initiated several pilot reviews of travel data for IRS employees to develop procedures for identifying the potential LTTT. The Beckley Finance Center (BFC)<sup>10</sup> completed the first pilot review in July 2011 for all IRS employees who traveled from January to June 2011. The review identified 650 employees with travel that could be LTTT but was not classified as such. The BFC sent e-mails to each employee with potential LTTT, which reminded the employees of the LTTT requirements. In September 2011, the BFC conducted a similar review that only related to IRS executives. The BFC completed another pilot review in March 2012 for travel from July 2011 to February 2012. According to information provided by the CFO, the pilot reviews identified two executives with travel that should have been classified as LTTT. The CFO reported that they retroactively calculated the tax withholdings for Calendar Year 2011 and issued the appropriate Form W-2.

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<sup>9</sup> GovTrip is a computer application and database that provides IRS travelers with automated travel planning and reimbursement capabilities. The system also includes authorization, reservation, and vouchering capabilities.

<sup>10</sup> The BFC is part of the CFO's Financial Management Office. It processes all administrative accounts payable, accounts receivable, and collections; and prepares and reconciles all financial reports and accounts.



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In early 2012, the CFO required such reviews on a quarterly basis, and the BFC officially assumed the responsibility of reviewing the employees' travel history in GovTrip to identify potential LTTT. The BFC uses a quick and simple formula by initially selecting those travelers who traveled more than 50 percent of the number of weeks available during the review period. For example, given that there are 12 weeks in a quarter, any travelers who take more than six trips during the review quarter would be subject to further review. The BFC would then contact the travelers, and the travelers' managers if warranted, to obtain additional facts and circumstances related to the travel assignments. Should the travel be classified as the LTTT, the BFC would calculate the applicable taxes retroactively to the effective date of the LTTT.

While the reviews conducted by the BFC have identified cases where employees may not have reported the LTTT, we found that the IRS has not documented the procedures for conducting the reviews. Additionally, the methodology for conducting the reviews could be enhanced to increase the likelihood of identifying unreported LTTT. The reviews are based on the number of trips made during the review period instead of the number of days traveled, and a determination based on the number of trips could be misleading and cause unnecessary follow-up. For example, a traveler could make 30 two-day trips to Washington, D.C., over a 52-week period. In this case, the traveler would have spent 60 days in Washington, D.C., but the IRS would initially consider the travel as potentially taxable based on its screening criteria (30 trips out of the possible 52 trips in a one-year period is more than 50 percent). On the other hand, a traveler could make 20 ten-day trips to Atlanta, Georgia, over the same period. In this case, the traveler would have spent 200 days in Atlanta, but the IRS would not detect this potential LTTT because 20 trips out of the possible 52 trips are less than 50 percent.

In addition to the guidance included in the IRM and the quarterly reviews conducted by the BFC, the CFO issued a memorandum to the IRS executives on April 23, 2013, reminding them of the LTTT rules that may affect them if they meet the requirements detailed in IRM 1.32.11.9. The memorandum states that it is imperative that all executives incurring the LTTT comply with the requirements outlined in the IRM.

### ***Recommendation***

**Recommendation 1:** The CFO should modify and document procedures for conducting periodic reviews to determine whether employees and managers accurately determine and report the taxability of long-term travel.

**Management's Response:** The IRS agreed with this recommendation. The IRS CFO plans to modify and document standard operating procedures for conducting periodic reviews to determine whether employees and managers accurately determine and report the taxability of long-term travel.



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***A Limited Number of Executives May Have Had Long-Term Taxable Travel but Failed to Report It***

In FY 2011 and FY 2012, there were 351 and 373 executives in the IRS, respectively. In order to determine whether IRS executives reported taxable travel in accordance with guidance included in the IRM and Internal Revenue Code, we first identified executives with travel patterns that could be taxable. While the IRM and Internal Revenue Code do not set a specific limit that can be used to determine the taxability of travel, we established a benchmark of 90 days of travel to one location for testing purposes. During FY 2011 and FY 2012, only 28 executives traveled to one destination 90 days or more.

We also reviewed the travel records of three other executives who traveled to one destination less than 90 days and whose travel the IRS had classified as LTTT. In total, we reviewed the travel records for 31 executives, less than 10 percent of the IRS executives employed, to determine whether their travel appeared to be properly classified as taxable or nontaxable.

We agreed with the classification for 19 executives (three were classified as LTTT and 16 as nontaxable). However, of the remaining 12 executives, we concluded that the tax classification of travel for nine executives appeared to be incorrect based on their travel pattern and the IRS's validation that the travel was taxable. For the remaining three executives, the classification was not made in a timely manner as required by IRM 1.32.11.9, *Taxable Travel Reimbursement*. Figure 1 summarizes the results of TIGTA's case review.

***Figure 1: Summary of FYs 2011–2012 Case Review Results***

LTTT Determinations Correct or Incorrect	IRS Determination <sup>11</sup>			Total
	Taxable and Timely	Taxable but Untimely <sup>12</sup>	Nontaxable	
Correct	3	3	16	22
Incorrect			9	9
				<b>31</b>

*Source: TIGTA analysis of travel vouchers and CFO data.*

We concluded that the travel classification for nine executives appeared to be taxable because the employees continuously traveled for assignments lasting more than one year. Of the nine cases that appeared to have been incorrectly classified as nontaxable, the average days of travel was 140.5 per case, and the average travel reimbursements was \$51,420.

<sup>11</sup> The determinations at the time of this review.

<sup>12</sup> The classification was not made in a timely manner as required by IRM 1.32.11.9(3).



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We also concluded (and the IRS validated) that the LTTT classification for three cases was not made in a timely manner because the traveler and his/her manager did not identify the LTTT situations at the beginning of the travel assignments or when it became apparent that the travel would exceed one year. This resulted in the travelers' untimely reporting of the travel taxable status and underreporting of the employment tax withholdings from their travel reimbursements at the time the vouchers were filed. The CFO reported that the correct tax withholdings were ultimately and retroactively computed when management discovered the situation.

LTTT is taxable under the Internal Revenue Code,<sup>13</sup> so not classifying LTTT accurately violates established tax reporting requirements. When the employee submits his/her travel vouchers via GovTrip with the correct purpose code, the system calculates the applicable Federal, State, Medicare, and FICA taxes at the following percentages:<sup>14</sup>

- Federal Tax: 25 percent
- State Tax: Varies by State
- Medicare Tax: 1.45 percent
- FICA Taxes (if applicable): 6.2 percent

Additionally, a withholding tax allowance (calculated at 33.33 percent of the total taxable expenses claimed) is applied. The allowance is paid to reimburse the employee for the Federal taxes withheld. Figure 2 illustrates an example of tax calculations for a hypothetical traveler living in a State with no income tax and an LTTT voucher of \$1,900.<sup>15</sup>

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<sup>13</sup> While considered taxable, reimbursements for LTTT do not apply to the aggregate pay limitation included in 5 U.S.C. § 5703(d), which limits pay for members of the Senior Service and employees in senior-level, scientific, or professional positions to no more than the annual compensation payable to the Vice President of the United States.

<sup>14</sup> State taxes are withheld at various rates depending on the individual States' annual income tax determination.

<sup>15</sup> The travelers' income level and filing status are not germane for determining the amounts to be withheld.



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**Figure 2: Tax Calculations on LTTT Vouchers**

1a.	Nontaxable Reimbursable Voucher Total		\$ 0.00
1b.	Taxable Voucher Total		\$1,900.00
2.	Taxable Third-Party Payments ( <i>i.e.</i> , airline payments charged to corporate account)		\$ 0.00
3.	Total Amount of Taxable Reimbursements (Line 1b plus Line 2)		\$1,900.00
4.	Withholding Tax Allowance (33.33% of Line 3)		\$ 633.33
5.	Total Income to Employee (Line 3 plus Line 4)		\$2,533.33
6.	Federal Tax Withholding on Total Income (25% of Line 5)		\$ 633.33
7.	State Tax Withholding on Total Income (a percentage of Line 5)	State = TX	\$ 0.00
8.	Medicare Tax on Total Income (1.45% of Line 5)		\$ 36.73
9.	FICA Taxes on Total Income (6.2% of Line 5)		\$ 157.07
10.	Total Withholdings on Income (Total of lines 6 through 9)		\$ 827.13
11.	Net Taxable Amount Due to Traveler (Line 1b plus Line 4 minus Line 10)		\$1,706.20

*Source: Example of tax calculations on a LTTT voucher in GovTrip.*

At the end of the year when employees file their Income Tax Reimbursement Allotment vouchers and the total annual income and tax filing status are known, the IRS computes the exact amounts of Federal and State income taxes, and Medicare and FICA taxes, and issues appropriate Forms W-2. The IRS is also responsible for paying the taxing authorities both the employer and employee portions of the taxes.

Without an effective periodic assessment and management review of the executives' travel activities, the IRS cannot ensure that its executives' travel is properly classified as LTTT. The inaccurate reporting of LTTT resulted in the executives' potentially underreporting income and Federal, State, Medicare, and FICA taxes.

During the course of our review, the IRS agreed with our preliminary assessment after considering the facts and circumstances related to the incorrect or late LTTT determinations. As of the end of August 2013, the IRS was in the process of identifying the appropriate corrective actions.

## **Recommendation**

**Recommendation 2:** The CFO should annually inform or remind IRS employees of the policies and procedures related to LTTT and travelers' and managers' responsibility to accurately determine whether travel may be taxable.

**Management's Response:** The IRS agreed with this recommendation. The IRS CFO plans to annually issue a reminder to employees reemphasizing existing LTTT procedures and reminding travelers and managers of their responsibility to accurately determine whether their travel may be taxable.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The objective of our review was to determine whether the IRS has established guidance and procedures so that senior executives and their managers know when overnight long-term travel is subject to taxes.<sup>1</sup> To accomplish this objective, we:

- I. Identified LTTT policy and procedures.
  - A. Reviewed Federal Travel Regulation 302-3.502(b),<sup>2</sup> Revenue Ruling 93-86,<sup>3</sup> and the IRS Internal Revenue Manual (IRM)<sup>4</sup> related to travel expense reimbursements that are subject to income taxation.
  - B. Determined whether the IRS has an adequate LTTT policy and guidance in place.
- II. Assessed the IRS's efforts to ensure that executive travelers comply with the LTTT requirements.
  - A. Identified the travelers whose travel has been classified as LTTT and determined the timeliness, appropriateness, and relevant actions taken to effect the LTTT determinations.
  - B. Identified the travelers whose travel appeared to be potential LTTT and the reasons for nonclassification determinations.

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<sup>1</sup> The criteria used to determine the taxability for long-term local travel are different from the criteria used for overnight travel. We did not include local travel in the scope of this review.

<sup>2</sup> The Federal Travel Regulation is the regulation contained in 41 Code of Federal Regulations Chapters 300 through 304, which implements statutory requirements and executive branch policies for travel by Federal civilian employees and others authorized to travel at Government expense.

<sup>3</sup> Rev. Rul. 93-86, 1993-2 C.B. 71, 1993-40 I.R.B. 4.

<sup>4</sup> The IRM is the IRS's primary official source of instructions to staff relating to the administration and operations of the IRS. It contains the directions employees need to carry out their operational responsibilities.



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**Appendix II**

*Major Contributors to This Report*

Kevin P. Riley, Director, Inspections & Evaluations  
James A. Douglas, Supervisory Evaluator  
Jacqueline D. Nguyen, Lead Auditor





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**Appendix III**

*Report Distribution List*

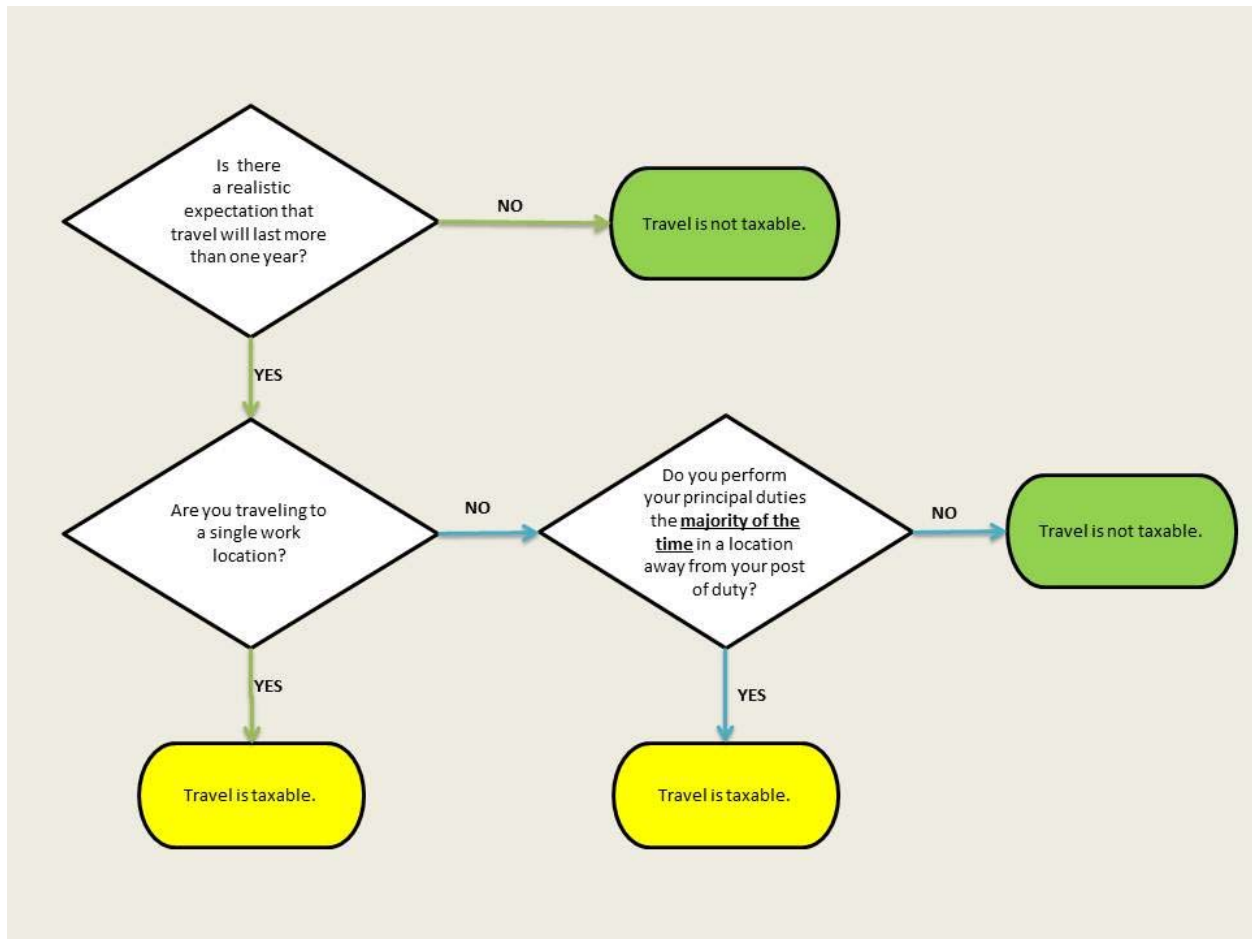
Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Assistant Deputy Commissioner for Operations Support OS  
Human Capital Officer OS:HC  
Deputy Chief Financial Officer OS:CFO  
Associate Chief Financial Officer for Financial Management OS:CFO:FM  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC



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Appendix IV

Overnight Long-Term Taxable Travel Flowchart



Source: TIGTA analysis of IRM 1.32.11.9, Taxable Travel Reimbursement,<sup>1</sup> requirements.

<sup>1</sup> The IRM is the IRS's primary official source of instructions to staff relating to the administration and operations of the IRS. It contains the directions employees need to carry out their operational responsibilities.



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## **Appendix V**

### *Long-Term Taxable Travel Law and Provisions*

Section 162(a)(2) of the Internal Revenue Code allows a deduction for ordinary and necessary business expenses paid or incurred in carrying on a trade or business, including traveling expenses while away from home in the pursuit of a trade or business. However, travel expenses are not deductible under this section unless the expenses are incurred while “away from home” overnight. The deductibility of travel reimbursements is contingent on whether travel is away from home and the period of time the taxpayer expects to be away from home. According to Revenue Ruling 93-86,<sup>1</sup> a taxpayer’s “home” is generally considered to be located at:

- 1) The taxpayer’s regular or principal (if more than one regular) place of business.
- 2) If the taxpayer has no regular or principal place of business, then at the taxpayer’s abode in a real and substantial sense (that is, a residence where the taxpayer maintains certain personal and business connections).

Revenue Ruling 93-86 adds that more important factors to be considered in the determination of a taxpayer’s principal place of business are: the total time ordinarily spent by the taxpayer at each business post, the degree of business activity at each business post, and whether the financial return in respect to each post is significant or insignificant.

If employment away from home in a single location is realistically expected to last (and does in fact last) for one year or less, the employment is temporary in the absence of facts and circumstances indicating otherwise, and reimbursements for travel expenses related to travel to that location are not taxable. If employment away from home in a single location is realistically expected to last for more than one year or there is no realistic expectation that the employment will last for one year or less, the employment is nontemporary, and reimbursements for travel expenses related to travel to that location are taxable. For a taxpayer who is employed at more than a single location for more than one year, the taxpayer’s “home” is the taxpayer’s principal place of business.

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<sup>1</sup> Rev. Rul. 93-86, 1993-2 C.B. 71, 1993-40 I.R.B. 4.



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Executive Long-Term Taxable Travel*

**Appendix VI**

*Fiscal Years 2011 Through 2012  
Case Review Results*

Executive	Single Destination	FY 2011			FY 2012			2-Year Combined Results
		Travel Days to Single Location	IRS LTTT Decision	Decision Correct or Incorrect <sup>1</sup>	Travel Days to Single Location	IRS LTTT Decision	Decision Correct or Incorrect	
A	Washington, DC	290	Taxable	Correct*	133	Taxable	Correct*	Correct*
B	Washington, DC	238	Taxable	Correct	282	Taxable	Correct	Correct
C	Washington, DC	213	Nontaxable	Correct				Correct
D	Washington, DC	193	Taxable	Correct*	186	Taxable	Correct	Correct*
E	Atlanta, GA	188	Nontaxable	Correct				Correct
F	Washington, DC	179	Nontaxable	Incorrect	111	Nontaxable	Incorrect	Incorrect
G	Washington, DC	174	Nontaxable	Incorrect	107	Nontaxable	Incorrect	Incorrect
H	Washington, DC	173	Nontaxable	Incorrect				Incorrect
I	Washington, DC	172	Taxable	Correct	187	Taxable	Correct	Correct
J	Washington, DC	164	Nontaxable	Correct	96	Nontaxable	Correct	Correct
K	Washington, DC	160	Nontaxable	Incorrect	166	Nontaxable	Incorrect	Incorrect
L	Washington, DC	134	Nontaxable	Incorrect	116	Nontaxable	Incorrect	Incorrect
M	Washington, DC	132	Nontaxable	Incorrect	129	Nontaxable	Incorrect	Incorrect
N	Cincinnati, OH	126	Nontaxable	Incorrect	173	Nontaxable	Incorrect	Incorrect

<sup>1</sup> Correct\* – Although correct, the classification was not made in a timely manner as required by IRM 1.32.11.9(3). The IRM is the IRS's primary official source of instructions to staff relating to the administration and operations of the IRS. It contains the directions employees need to carry out their operational responsibilities.



*Internal Revenue Service's  
Executive Long-Term Taxable Travel*

Executive	Single Destination	FY 2011			FY 2012			2-Year Combined Results
		Travel Days to Single Location	IRS LTTT Decision	Decision Correct or Incorrect <sup>1</sup>	Travel Days to Single Location	IRS LTTT Decision	Decision Correct or Incorrect	
O	Washington, DC	117	Nontaxable	Correct				Correct
P	Washington, DC	116	Nontaxable	Incorrect	96	Nontaxable	Correct	Incorrect
Q	Washington, DC	112	Nontaxable	Correct				Correct
R	Washington, DC	111	Nontaxable	Incorrect				Incorrect
S	Washington, DC	108	Nontaxable	Correct	96	Non-Taxable	Correct	Correct
T	Atlanta, GA	101	Nontaxable	Correct				Correct
U	Washington, DC	96	Nontaxable	Correct				Correct
V	Washington, DC	95	Nontaxable	Correct				Correct
W	Washington, DC	79	Taxable	Correct	198	Taxable	Correct	Correct
X	Washington, DC				93	Nontaxable	Correct	Correct
Y	Atlanta, GA				59	Nontaxable	Correct	Correct
Z	Washington, DC				108	Nontaxable	Correct	Correct
AA	Washington, DC				39	Taxable	Correct*	Correct*
BB	Washington, DC				186	Nontaxable	Yes	Correct
CC	Washington, DC				99	Nontaxable	Yes	Correct
DD	Washington, DC				128	Nontaxable	Yes	Correct
EE	Washington, DC				138	Nontaxable	Yes	Correct
<b>Total Combined 2-Year Results</b>					<b>9 Incorrect</b> <b>22 Correct (19 timely, 3 untimely)</b> <b>31</b>			

Source: TIGTA analysis of travel vouchers and CFO data.



*Internal Revenue Service's  
Executive Long-Term Taxable Travel*

**Appendix VII**

*Management's Response to the Draft Report*

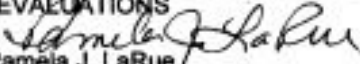


CHIEF FINANCIAL OFFICER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

October 30, 2013

MEMORANDUM FOR R. DAVID HOLMGREN  
DEPUTY INSPECTOR GENERAL FOR INSPECTIONS AND  
EVALUATIONS

FROM:   
Pamela J. LaRue  
Chief Financial Officer

SUBJECT: Draft Inspection Report – Internal Revenue Service's Executive  
Long-Term Taxable Travel (#IE-13-016)

The IRS appreciates your review of executive long-term taxable travel and the opportunity to respond to the subject draft inspection report. We agree with your recommendations and our proposed corrective actions are provided in the attachment.

If you have any questions, please contact William H. Maglin II, Associate Chief Financial Officer for Financial Management, at (202) 803-9730.

Attachment



*Internal Revenue Service's  
Executive Long-Term Taxable Travel*

Attachment

**RECOMMENDATION 1**

The CFO should modify and document procedures for conducting periodic reviews to determine whether employees and managers accurately determine and report the taxability of long-term travel.

**CORRECTIVE ACTION**

The IRS agrees with this recommendation. The IRS Chief Financial Officer (CFO) will modify and document standard operating procedures for conducting periodic reviews to determine whether employees and managers accurately determine and report the taxability of long-term travel.

**IMPLEMENTATION DATE**

December 31, 2013

**RESPONSIBLE OFFICIAL**

Chief Financial Officer

**RECOMMENDATION 2**

The CFO should annually inform or remind IRS employees of the policies and procedures related to LTTT, and travelers and managers' responsibility to accurately determine whether travel may be taxable.

**CORRECTIVE ACTION**

The IRS agrees with this recommendation. The IRS CFO will annually, in December, issue a reminder to employees reemphasizing existing long-term taxable travel (LTTT) procedures and reminding travelers and managers of their responsibility to accurately determine whether their travel may be taxable.

**IMPLEMENTATION DATE**

December 31, 2013

**RESPONSIBLE OFFICIAL**

Chief Financial Officer