10 do's and don'ts about tax homes

Make sure you understand these basics—your deductions depend on them.

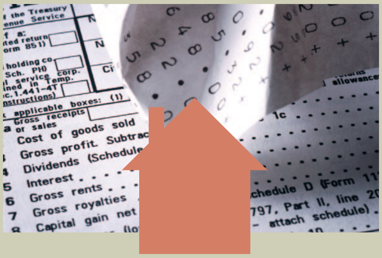
By Joseph Smith, RRT, EA

1. Do guard your "tax home" with your life. To qualify for tax-free housing while on assignment as well as for travel reimbursements and, in some cases, meal allowances, you must maintain a tax home. Your tax home and your permanent residence aren't necessarily the same place. For your permanent residence to be your tax home, you must contribute to maintaining a livable residence, whether it's a house, apartment, or room. In addition, the area of your tax home must be where you have strong financial and legal ties, such as a checking account, driver's license, car registration, and mail delivery.

2. Don't expect to claim a storage unit or a mailbox as a tax home. You need to have a residence that you maintain with a financial commitment. If you're renting a room, be sure to have a written—preferably notarized—contract with a paper trail of regular monthly payments. If you can't prove that you're duplicating expenses by maintaining two residences (your tax home and your home-away-from-home while you're traveling) you won't qualify for the deductions associated with travel.

Many travelers spend years claiming their parents' address as a tax home without any financial commitment to it. These travelers are living on the edge.

3. Do be aware that the IRS considers any assignment longer than 12 months in the same metropolitan area or state—even if it involves different contracts—permanent, not temporary. Assignments of this length don't qualify you for tax-free housing, travel reimbursements, and meal deductions. Also, going home for 30 days or taking another assignment only to return to the original area doesn't restart the 12-month period. Staying in one state for multiple assignments—despite a long distance between assignment locations, such as the distance between Los Angeles and San Diego—may subject you to state residency laws.



Working as an independent contractor is gaining popularity among nurses and allied health professionals. Many of the rules are different when you work that way.

4. Don't create the impression you live in one state if you have a tax home in another. For example, don't file a tax return as a resident in the state where you work if your tax home is in another state. Don't change your driver's license, car registration, or license tags to the assignment state. Don't change your address on any credit cards, bank accounts, insurance forms, or any financial or legal commitment. Have your mail sent to your permanent home address and forwarded. Learn to pay bills online or set up an automatic payment arrangement. For convenience, make sure you can access your bank accounts, credit cards, and other financial accounts online as well.

Don't give the impression that you're moving several times a year versus maintaining a permanent home and taking temporary assignments. Tax court cases have cited such behavior as evidence against a tax home.

5. Don't expect your travel company to fill you in on IRS rules regarding a tax home. Travel companies aren't in the business of policing their employees' financial activities. Visit **http://www.irs.gov** and educate yourself.

6. Do pay state taxes to any state that you work in. Although you won't file a tax return as a resident (unless it's also your tax home), you'll need to pay tax on what you earn there. When you file as a resident in your home state, you'll pay tax on those same earnings, but you'll get a tax credit for the amount you paid to other states (up to the amount that your home state would normally charge). State tax laws vary widely. For example, states such as Alaska, Florida, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming don't have state taxes. If your tax home has a state income tax, you'll be taxed there on all earned income, even income earned in tax-free states.

Normally, the state tax withheld is at the rate required by the state the assignment is in. Travelers with tax homes in high income tax states such as Maine, Maryland, Minnesota, Montana, and New York usually will pay the difference between the tax rates of their home state and the amount withheld in the assignment states. If you're in this situation, fill the gap by making estimated payments to your home state. A good resource for state tax rates is **http://www.taxfoundation.org/individualincometaxrates.html.**

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7. Do keep a written travel log. The IRS requires a "timely and contemporous" log of business expenses as evidence in case your tax return is examined or audited. This means logs with exact dates, mileage, and meals that you update as you travel, not logs you throw together with approximate dates when it's time to file! One overlapping date that's incongruous with your receipts can undermine the validity of your whole log, so keep it carefully. You don't need to use any particular format, as long as another person can read it. You can buy preprinted logs at office supply stores, use PDA software, or create your own.

8. Do deduct meal expenses using the IRS per diem rates that having a tax home qualifies you for. Per diem rates are daily amounts assigned to specific metropolitan areas and range from $30 to $52. You can apply these every day that you're away from home due to the assignment, even if you're not working that day. Look for specifics in IRS publication 1542, available online at **http://www.irs.gov**.

9. Don't claim local assignments as travel assignments. They're not, and they don't qualify for tax-free housing, reimbursements, or meal deductions. Just because you work for a temp agency doesn't mean the assignment is a "travel assignment." To be considered a travel assignment, the work must be far enough away to require you to stay overnight to perform the duties of the job. You won't find any guidelines in terms of specific distance that qualifies for the overnight stay—there's no such thing as a "50-mile rule," which you may hear other nurses mistakenly refer to.

10. Don't live your life around a tax deduction. If maintaining your tax home is too much work and you prefer to go from assignment to assignment without returning home, do it. Yes, you may lose $4,000 to $6,000 in tax savings a year, but the cost and time of maintaining your tax home may exceed that amount. Experience, benefits, opportunity to travel, and the freedom may be worth it. If you choose this route, you're classified as an "itinerant worker" by the IRS and your tax home is wherever you work. This also means that you become a "part-year resident" in each state that you travel in and must file accordingly.

Source: Joseph Smith, RRT, EA, at **http://www.traveltax.com**. Send your questions for him to TravelNursing@lww.com.