

PER DIEM RATES, CALCULATIONS AND DEDUCTIONS

City By City or Standard Daily Rate

There are two ways to calculate your per diem allowance -- standard daily rate and city by city. Each has its advantages. Domestically, either method might yield the best result however if you fly a lot of international pairings, city by city is clearly the best option. Per diem rates are broken down into three parts- CONUS (domestic), OCONUS (Alaska, Hawaii, US territories, etc.) and International. Several per diem allowance rates exist, and it is important to choose the correct one.

Per Diem Calculation

For example, Aspen (ASE) currently has a \$288 per diem allowance (during ski season of course), but this includes lodging which is typically paid for by the airline. The amount associated with Meals and Incidentals Expense (M&IE) is only \$71 per night. This is using the city by city method. Conversely, the standard daily rate for transportation workers is currently \$63 for CONUS, and it changes slightly for international / OCONUS destinations to \$68 (this was recently increased starting fiscal year 2016 which begins October 1 2015).

This allowance will automatically get adjusted to a 3/4-day for the beginning and end of your trip, and your last overnight will be used to compute the per diem for the last day of your trip. Regardless of what you have read in IRS Publication 463, the Tax Court and industry practices automatically apply the 3/4-day convention to the first and last day. Here are some examples:

Overnights	City by City Per Diem	Standard Daily Per Diem
ASE, SFO, ORD	$\$53.25 + \$71 + \$71 + \$53.25 = \mathbf{\$249}$	$\$47 + \$63 + \$63 + \$47 = \mathbf{\$220}$
ASE, GRB, SFO	$\$53.25 + \$46 + \$71 + \$53.25 = \mathbf{\$224}$	$\$47 + \$63 + \$63 + \$47 = \mathbf{\$220}$
FAR, GRB, FSD	$\$34.50 + \$46 + \$46 + \$34.50 = \mathbf{\$161}$	$\$47 + \$63 + \$63 + \$47 = \mathbf{\$220}$

As you can see, each method has its advantages. If you fly to a lot of smaller cities, generally speaking the standard daily rate is preferred versus a mix of larger and smaller cities. If you fly internationally even occasionally, the city by city method is generally preferred. Heck, LHR is over \$180 per night. You can only use one method for the entire tax year. In other words, you cannot switch

back and forth between pairings. We compute your per diem using both methods, and use the per diem allowance with the greatest deduction.

Per Diem Deduction

Most domestic crewmembers who work an average of 15 days per month will have a per diem allowance of around \$9,000. Let's say your airline reimburses approximately \$5,500. So the portion that is not reimbursed is \$3,500. Because you are Department of Transportation (DOT) employee, we multiply this number by 80% (if you were not a DOT employee, it would be reduced by 50% instead of 20%, so you got that going for you). Therefore your per diem deduction is \$2,800 (80% of \$3,500) which at a tax rate of 15% equals \$420 in your pocket. International crewmembers can easily see a \$10,000 deduction which is \$1,500 in your pocket. Seniority is everything as they say.

Locals, Turns, Day Trips, CDOs, SDOs, Highspeeds

Questions come up all the time about two types of flying- ones that do not involve an overnight, and ones that have overnights that are continuous or split duty. The rule is simple - any time away from your tax home (domicile) that requires SUBSTANTIAL rest is allowed for a non-taxable per diem reimbursement and subsequent tax deduction. Substantial rest is not completed in the crew lounge or FL350 - sorry. Having said that, resting in a hotel during a continuous or split duty (CDO, SDO) overnight is considered substantial rest, and therefore a per diem deduction is allowed. For example, if you do a single CDO/SDO it would be 3/4-day on the first and last day. If you do two CDOs/SDOs back to back, it would be 3/4-day on the first day, full day on the second day and 3/4-day on the last day. If you cannot get enough, read the famous Bissonnett Tax Court case involving a ship Captain who did local trips, but was able to deduct per diem expenses.