

DESCRIPTION OF S. 589, S. 749, AND S. 940
RELATING TO
TAX RULES AFFECTING FOREIGN
CONVENTION EXPENSES
LISTED FOR A HEARING
BY THE
SUBCOMMITTEE ON TOURISM AND SUGAR
OF THE
COMMITTEE ON FINANCE
ON JULY 20, 1979

PREPARED FOR THE USE OF THE
COMMITTEE ON FINANCE
BY THE STAFF OF THE
JOINT COMMITTEE ON TAXATION



JULY 18, 1979

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STATE OF TEXAS

IN SENATE,
January 10, 1901.

REPORT
OF THE
COMMISSIONER OF THE GENERAL LAND OFFICE,
FOR THE YEAR ENDING DECEMBER 31, 1900.

INTRODUCTION

The bills described in this pamphlet have been scheduled for hearings on July 20, 1979, by the Subcommittee on Tourism and Sugar of the Senate Finance Committee. The bills (S. 589, S. 749, and S. 940) relate to tax rules affecting foreign convention expenses.

In connection with this hearing, the staff of the Joint Committee on Taxation has prepared a description of present law, the issues involved, and the provisions of the bills. Also included is the estimated revenue effect of each of the bills as well as the Treasury Department position. The first part of the pamphlet is a summary of the bills.

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I. SUMMARY

Under present law, a foreign convention is defined as any convention held outside the United States, its possessions, and the Trust Territory of the Pacific. Taxpayers may not deduct expenses of attending more than two foreign conventions per year. Where deductions are permitted, the amount of the deduction for transportation is limited to coach or economy airfare and the deduction for subsistence may not exceed the Federal per diem rate for the location where the convention is held.

In addition, no deduction is allowed unless certain requirements are met: a full day or half-day of business activities must be scheduled on each day during the convention; deductions for subsistence expenses are not allowed unless the individual attends two-thirds of the scheduled business activities; transportation costs are deductible in full only if at least one-half of the days are devoted to business related activities. The taxpayer is required to substantiate this attendance in accordance with detailed reporting requirements. Also, certain requirements are imposed upon the sponsoring organization or group.

The bill, S. 589 (introduced by Senators Bentsen, Javits, DeConcini, Hayakawa, and Church), would provide that conventions held within the North American area, rather than only in the United States and its possessions, would not be subject to the rules for deductibility of foreign convention expenses. For this purpose, the North American area would include Mexico, Canada, and the United States and its possessions.

The bill, S. 749 (introduced by Senators Goldwater and DeConcini), would repeal the existing foreign convention rules.

The bill, S. 940 (introduced by Senator Mathias), would repeal the reporting requirements imposed under present law upon the sponsoring organization or group.

II. TAX TREATMENT OF EXPENSES IN ATTENDING FOREIGN CONVENTIONS

A. Present Law and Issues

Present law

Present law (enacted in the Tax Reform Act of 1976) provides specific rules (sec. 274(h)) limiting the deduction for expenses of attending conventions, seminars, or similar meetings held outside the United States, its possessions, and the Trust Territory of the Pacific. These rules apply not only to the individuals attending the convention, but also to an employer who pays the expenses. Under these rules:

(1) No deduction is allowed for expenses paid or incurred by an individual in attending more than two foreign conventions in any taxable year.

(2) With respect to the two conventions for which a deduction is allowable, the amount of expenses that can be deducted for transportation and subsistence are limited. A deduction for transportation expense outside the United States may not exceed the coach or economy rates charged by a commercial airline. The deduction for subsistence may not exceed the dollar per diem rate established for Federal employees at the location in which the convention is held.

(3) No deduction is allowed for subsistence expenses unless (a) a full day or half-day of business activities are scheduled on each day during the convention, and (b) the individual attends at least two-thirds of the hours of the daily scheduled business activities, or, in the aggregate, attends at least two-thirds of the total hours of scheduled business activities at the convention.

(4) A deduction for the full amount of expenses of transportation (subject to the coach or economy rate limitation) to and from the site of a foreign convention is allowable only if one-half or more of the total days of the trip (excluding transportation days) are devoted to business-related activities. In determining whether a day is devoted to business-related activities, the same rules for counting full days and half-days for purposes of subsistence expenses are applied.

(5) The taxpayer must comply with certain reporting requirements. For example, information must be furnished to indicate the total days of the trip (exclusive of the transportation days to and from the convention), the number of hours of each day devoted to business activities (in a brochure describing the convention, if available), and any other information required by regulations. In addition, the taxpayer must attach a statement to his income tax return, signed by an appropriate officer of the sponsoring organization, which must include a schedule of the business activities of each convention day, the number of hours that the taxpayer attended these activities each day, and any other information required by regulations.

Issues

The issues include the following:

(1) whether the definition of a foreign convention should be changed to exclude Mexico and Canada from the present law limitations on deductibility of foreign convention expenses (as in S. 589);

(2) whether the present law limitations on deductibility of foreign convention expenses should be repealed (as in S. 749); and

(3) whether the present law reporting requirements for a sponsor of a foreign convention should be repealed (as in S. 940).

B. Description of S. 589

Description of provisions

The bill would provide that a foreign convention would mean any convention, seminar, or similar meeting held outside the North American area and the Trust Territory of the Pacific. The North American area would be defined to include the United States and its possessions, Mexico, and Canada. Additionally, the bill would provide that the limitation with respect to transportation costs would be applicable only to foreign convention transportation outside the North American area.

Effective date

The provisions of the bill would apply to conventions beginning after December 31, 1978.

Revenue effect

It is estimated that enactment of this legislation would result in a revenue loss of less than \$5 million annually.

Treasury position

The Treasury is opposed to S. 589.

C. Description of S. 749

Description of provisions

The bill would repeal the foreign convention rules. The general rules applicable prior to the Tax Reform Act of 1976 would govern the deductibility of expenses related to attendance at foreign conventions.

Effective date

The repeal of the foreign convention rules would be effective with respect to taxable years beginning after December 31, 1978.

Revenue effect

It is estimated that enactment of this legislation would result in a revenue loss of less than \$5 million annually.

Treasury position

The Treasury is opposed to S. 749. The Treasury would support a change in existing law to allow deductions for foreign convention expense only if it is more reasonable to hold a foreign convention outside the United States and its possessions than within them. The

factors to be considered in determining reasonableness are the purpose and activities of the conventions; the purpose and activities of the sponsoring organization; the residence of active members of the sponsoring organization; the places at which other meetings of the sponsoring organization are held.

D. Description S. 940

Description of provisions

The bill would repeal the existing reporting requirement that a taxpayer must attach a written statement signed by an officer of the sponsoring group or organization. However, the bill would retain the reporting requirements which, under present law, must be satisfied by the taxpayer claiming the deduction.

Effective date

The provisions of the bill would be effective with respect to conventions beginning after December 31, 1978.

Revenue effect

It is estimated that enactment of this legislation would have a negligible revenue effect.

Treasury position

If the existing rules on foreign convention expenses are retained in other respects, the Treasury is opposed to S. 940. However, the Treasury would support (a) a repeal of the requirement that an officer of the sponsoring organization sign the required written statement, and (b) an alternative method of compliance that would allow a corporation which claims the deduction with respect to large numbers of employees to summarize the required information on its corporate tax return without attaching statements for each individual to the return. If the Treasury's proposal for change in the foreign convention area is adopted, the present reporting requirements would be unnecessary.



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