

IRS publishes new per diem business travel rates for fiscal year 2027

Many businesses use federal "per diem" rates to reimburse employees for out-of-pocket travel expenses. In Notice 2026-60, the IRS announced special per diem rates that are effective for the federal government's fiscal year of October 1, 2026, through September 30, 2027. Taxpayers can use these rates to substantiate certain lodging, meals and incidental expenses for business travel within the continental United States during this period. Let's look at why many employers use travel per diems, how the simplified high-low method works and what those new rates are.

Travel per diems vs. actual costs

For businesses with employees who travel frequently, reimbursing *actual* expenses can be cumbersome. It requires detailed recordkeeping for lodging, meals and incidentals. An alternative to tracking actual business travel expenses is to use federal per diem rates, which vary from locality to locality.

Under the per diem method, employees receive a flat daily amount to cover certain business travel expenses, and they manage the funds. This setup can also help employers control and budget for travel costs more effectively. Employees still must document the time, place and business purpose of their travel within a reasonable period, but there's no need to detail every amount they spend.

Per diem reimbursements generally aren't subject to income or payroll tax withholding or reported on an employee's Form W-2 to the extent they qualify under an accountable plan. However, any allowance above the applicable federal rate is generally treated as wages unless the employee substantiates the excess expenses.

Simplified high-low method

Instead of looking up specific per diem rates by city, employers can choose to apply the high-low method. This alternative uses two per diem rates for travel within the continental United States. The IRS establishes one annual rate for certain areas with higher costs. Examples of high-cost areas include Boston, San Francisco, Seattle and Nashville. All locations that aren't listed as "high-cost" are automatically considered "low-cost," and the annual low-cost rate applies.

Under some circumstances — for example, if an employer provides lodging or pays the hotel directly — employees may receive a per diem reimbursement only for their meals and incidental expenses. There's also a $5 incidental-expenses-only rate for employees who don't pay or incur meal expenses for a calendar day (or partial day) of travel.

Fiscal year 2027 high-low rates

For travel from October 1, 2026, through September 30, 2027, the per diem rate for all high-cost areas within the continental United States is $329 (up from $319 for fiscal year 2026), consisting of $243 for lodging and $86 for meals and incidental expenses. For all other areas within the continental United States, the per diem rate is $230 for travel during this period (up from $225 for fiscal year 2026), consisting of $156 for lodging and $74 for meals and incidental expenses.

Certain tourist-attraction areas count as high-cost areas on a seasonal basis, and the period the high-cost per diem applies to may change somewhat from year to year. For instance, if an employee travels to Atlanta in fiscal year 2027, the high-cost per diem applies only from January 1, 2027, through March 31, 2027.

The high-low method is subject to various rules and restrictions. For example, businesses that use it for an employee must continue using it for all reimbursement of business travel expenses within the continental United States during the *calendar* year. However, the business may use any permissible method to reimburse that employee for any travel outside the continental United States.

For domestic travel during the last three months of a calendar year, employers must generally continue to use the same method (the regular federal per diem or high-low method) for an employee as they used during the first nine months of the calendar

year. Also, the high-low method can't be used for employees who own 10% or more of the business.

Deducting per diem reimbursements

When claiming business expense deductions for amounts reimbursed to employees, employers must treat the amount specified for meals and incidental expenses under the high-low method as a food and beverage expense that's generally subject to the 50% deduction limit on meal expenses.

For example, suppose your business reimburses a manager for attending an October trade show in Denver based on the $329 high-cost per diem. You may generally deduct $286 ($243 for lodging plus $43 for half of the meals and incidental expense allowance).

Choosing the right approach for your business

A clear travel reimbursement policy can help manage costs and reduce administrative burden for you and your employees. If your current policy requires employees to submit detailed expense reports for business travel, you might consider switching to the high-low method. Although the list of high-cost localities varies slightly from year to year, this method can simplify travel reimbursements. Contact us for help reviewing your policy, complying with applicable rules and restrictions, and evaluating which method makes sense for your situation going forward.

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