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New IRS Per Diem Rates for 2026-2027: What Business Owners Should Know

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Business travel has returned to many companies' schedules in the years since the health pandemic. Meanwhile, stories about flight delays and cancellations continue to remind travelers that getting from one place to another can be an adventure, if not downright challenging.

There is some welcome news on the expense side of business travel. The Internal Revenue Service (IRS) has released updated per diem rates for 2026-2027, giving businesses new standardized amounts to use when reimbursing employees for qualifying travel expenses.

The new rates took effect Oct. 1, 2026, and apply to travel expenses incurred while business owners and employees are away from their tax homes on business. For companies that regularly send employees to conferences, trade shows, client meetings, off-site training, or other business destinations, the update provides an opportunity to review travel reimbursement policies and simplify expense reporting.

What Are Per Diem Rates?

A per diem is a daily allowance used to cover certain expenses while traveling for business. Employers can use IRS-approved substantiation methods to reimburse employees for qualifying lodging costs and meals without requiring receipts for every expense covered by the allowance.

The IRS updates its special per diem rates annually to account for changes in travel costs. Under the applicable rules, businesses can use these rates to determine how much of an employee's travel allowance is treated as substantiated for federal tax-related purposes.

For employers, a properly administered per diem arrangement can make expense reporting easier. Employees still need to document when and where they traveled, along with the business purpose of each trip, but the standardized allowance can reduce the need to collect individual receipts for expenses covered by the applicable per diem method.

The New Per Diem Rates for 2026-2027

IRS Notice 2026-60 (PDF file) establishes the following special per diem rates for the period beginning Oct. 1, 2026.

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Expense category	Daily rate
High-cost locations, including lodging, meals, and incidentals (some cities include) ▪ Los Angeles, CA: Oct. 1 through Sept. 30 ▪ San Francisco, CA: Oct. 1 through Sept. 30 ▪ San Diego, CA: Oct. 1 through Sept. 30 ▪ New York City: Oct. 1 through Sept. 30 ▪ Washington, D.C.: Oct. 1 through Sept. 30	**$329**
Other locations within the continental United States, including lodging, meals, and incidentals (some cities include)	**$230**
Expense category	**Daily rate**
▪ Sacramento, CA: Oct. 1 through Sept. 30 ▪ Fresno, CA: Oct. 1 through Sept. 30 ▪ Las Vegas, NV: Oct. 1 through Sept. 30 ▪ Dallas, TX: Oct. 1 through Sept. 30 ▪ Houston, TX: Oct. 1 through Sept. 30	
Meals and incidentals in high-cost locations	**$86**
Meals and incidentals in other continental U.S. locations	**$74**
Transportation industry meals and incidentals within the continental United States	**$80**
Transportation industry meals and incidentals outside the continental United States	**$86**
Incidental expenses only	**$5**

The $329 and $230 amounts apply under the IRS's high-low substantiation method, which uses two standardized rates for qualifying travel within the continental United States. The separate meals and incidental expenses amounts apply when lodging is handled separately or when another permitted method is used.

The IRS notice also establishes special meals and incidental expenses rates for eligible transportation industry workers. Those rates may be useful for businesses whose employees regularly travel as part of their transportation duties.

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How Does the High-Low Method Work?

In our view here at SWC, the high-low method simplifies the process of determining per diem allowances for business travel within the continental U.S. The IRS identifies certain destinations as high-cost locations and assigns them the higher daily allowance. Other qualifying destinations use the lower rate.

For example, a business using the high-low method could apply the $329 daily rate when an employee travels to a designated high-cost destination. The $230 rate would apply to travel to a location outside that category.

> **Designation and destination:** The designation depends on the destination and, in some cases, the time of year. A city may qualify as a high-cost location throughout the year or only during months when travel expenses are generally higher.

The IRS's 2026-2027 list includes several California destinations that qualify for the higher rate throughout the applicable annual period. These include Los Angeles, San Diego, San Francisco, and Santa Barbara. Other California destinations have seasonal classifications. Palm Springs, for example, qualifies as a high-cost location only between Oct. 1 through April 30.

The updated notice also adds San Mateo / Foster City / Belmont to the high-cost list and changes the qualifying periods for Napa, South Lake Tahoe, and Yosemite National Park. You should always check the applicable geographic boundaries and dates before selecting a rate.

What Per Diem Records Do Employers Need to Keep?

Per diem arrangements can reduce paperwork, although employers and employees remain responsible for documenting qualifying business travel. Under the federal substantiation rules, employees must provide records establishing the dates and destination of their travel. They must also identify the business purpose of the trip.

If you own or manage a business, you should maintain a reimbursement policy that explains which expenses are covered by the allowance and how employees report their travel. The policy should also address advances and the treatment of payments associated with travel days that cannot be substantiated.

> **Accountable Plan:** These requirements are important when reimbursements are made under an *accountable plan*. An accountable plan is an employer reimbursement arrangement that satisfies federal requirements concerning business expenses and employee accounting. When those requirements are met, qualifying reimbursements are excluded from the employee's taxable wages.

Amounts that exceed the applicable federal substantiation rate may be treated by the IRS as taxable wages unless the employee adequately substantiates the additional expenses under the applicable rules.

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Does the Full Per Diem Amount Qualify for a Tax Deduction?

As you may have assumed, the federal tax treatment of business travel expenses depends on the type of expense and the circumstances of the trip. For example, the IRS's high-low method includes amounts attributable to lodging and amounts attributable to meals. The portion assigned to meals is subject to the federal business meal deduction limitation under Internal Revenue Code Section 274(n).

For the 2026-2027 high-low method, the IRS identifies $86 of the $329 high-cost allowance and $74 of the $230 standard allowance as attributable to meals. Business owners should account for these distinctions when calculating their federal tax deductions. The per diem rates provide a method for substantiating qualifying expenses, while the applicable deduction rules determine how those expenses are treated on the business's tax return.

Special Per Diem Considerations for Business Owners

If you own, operate, or play a role in managing a business, you need to be aware that the IRS places restrictions on certain per diem methods when the employer and employee are related parties.

Under Revenue Procedure 2019-48, the high-low method and certain other per diem substantiation methods are unavailable for specified related-party arrangements. These restrictions can affect owners who receive travel reimbursements from businesses in which they hold an ownership interest.

The rules also differ for self-employed individuals. In general, a self-employed individual may use permitted standard rates for meals and incidental expenses while traveling on business, subject to the applicable requirements. Lodging expenses generally must be substantiated using actual costs.

Pro Tip: Review the available methods with your CPA or tax planning professional *before* adopting a per diem policy for yourself or related employees.

What About California Employers?

The rates discussed in this SWC singlette are federal tax substantiation rates. California employers must also consider the Golden State's employment-law requirements concerning reimbursement of necessary business expenses. While a federal per diem arrangement may help establish a consistent reimbursement process, you should separately evaluate whether your policy satisfies California's requirements for reimbursing employees who incur necessary expenses while performing their jobs.

Businesses with employees traveling frequently within California or to other states may benefit from reviewing their reimbursement procedures with both their CPA and an employment-law professional.

Review Your Travel Reimbursement Policy

The new IRS rates provide a timely reason to review how your business handles employee travel expenses. Companies that reimburse actual costs may want to consider whether a standardized

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per diem arrangement would simplify administration. Businesses already using per diem allowances should confirm that their policies reflect the rates effective Oct. 1, 2026.

The review should also address:

- How employees document qualifying travel
- Whether the company's reimbursement procedures satisfy the applicable federal requirements.
- How to account for the transition rules that may apply during the final three (3) months of 2026.

If your business regularly incurs travel expenses, the tax pros here at SWC can help you evaluate the federal tax treatment of your reimbursement policy and determine whether the updated per diem rates are appropriate for your circumstances. To request our support, call (858) 487-4580 or email us at admin@swc.cpa. We're here to help!

Editor's Note: For a complete list of high-cost localities, see IRS Notice 2026-60 (PDF file).

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