The One-Year Limitation Rule

What You Need to Know
The IRS has long held that for a travel nurse to receive nontaxable travel benefits (meals, housing, and transportation) while on assignment, the travel assignment must be temporary. For an assignment to be considered temporary, it must be expected to last less than one year in length.

If the assignment is expected to last longer than one year, the assignment area is considered to be the travel nurse’s tax home and all travel benefits paid would be considered taxable income to the nurse. The IRS rationale is that the travel nurse would likely move his or her residence to minimize travel expenses for an assignment expected to last more than one year.

Assignment Extensions
IRS rules provide that a travel nurse assignment meets the temporary requirement if the assignment is expected to last less than one year, and does in fact last less than one year.

If an assignment is extended so that it is then expected to last more than one year, all transportation, meal and incidental, and housing allowances, and corporate-paid housing costs must be treated as taxable income beginning with expenses incurred when it first becomes expected that the one-year limit will be exceeded—not when the 366th day is reached.

Expenses incurred prior to when it is first anticipated the one-year limit will be exceeded do not need to be reclassified as income. However, all subsequent expense reimbursements must be treated as taxable income.

Location Limits
The one-year limitation rule applies to the work location, not just one assignment. The rule applies whether you were employed by one agency or more than one and continue to work in the same general area (i.e., within commuting distance of your current worksite or housing) without a significant break in service.

Since all travel nurse assignments usually have defined lengths and are less than one year, a taxation concern generally arises when the assignment includes extensions that begin to approach the one-year limit. You and your Foundation Medical Staffing agent should monitor such situations jointly.

Restarting the Clock
The IRS one-year limitation rule is fairly objective. However, one area that can create uncertainty is how long a travel nurse must stay away from an assignment or location to restart the one-year clock.

IRS rules: The IRS has specifically ruled that a break of three weeks away from the current worksite area is too short to restart the one-year clock. It has also ruled that a break from a worksite area of seven months is significant enough to restart the counting. Unfortunately, the IRS has provided no guidance for break lengths between these extremes.

Foundation Medical Staffing guidelines: Our position is consistent with NATHO guidelines, which state that a break between assignments in the same location of 13 or more weeks should be significant enough to restart the one-year clock. The 13-week length is approximately midway between the 3-week and 7-month rulings and is also the typical length of a travel nurse assignment.

The break may be for pleasure, education, an assignment in another location, or any other reason or combination of reasons as long as the break is in a location outside typical commuting distance from the current assignment and current temporary housing. Multiple short breaks totaling more than 13 weeks will not accomplish the necessary break. In addition, there must be no written or oral understanding of returning to the assignment or assignment area during this break. If there is, the break will not qualify to restart the one-year clock.

NOTE: As a result of the seasonal case law rulings, summer vacations during school-based assignments do not qualify as a break in service.

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