CPA

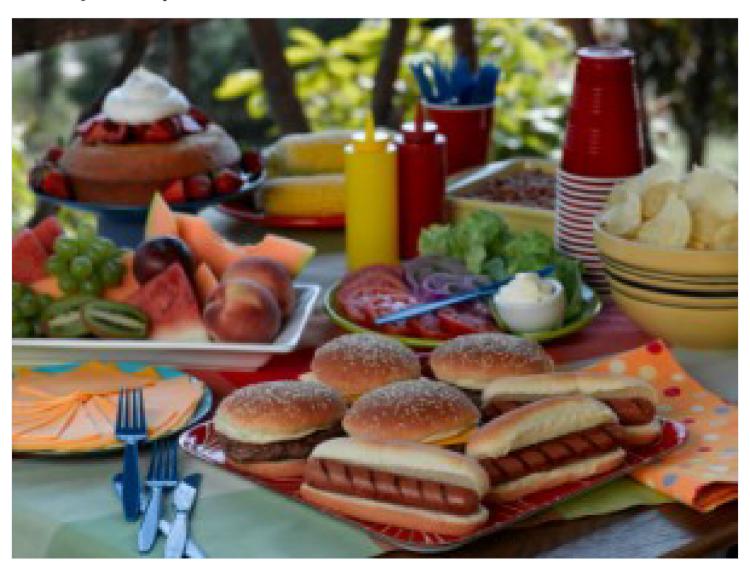
Practice Advisor

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or just relaxing and enjoying the warm weather. Of course, there's nothing to prevent you from mixing in a little business with the pleasure. If your clients handle things the right way, and keep detailed records, they can write off a portion of their business entertainment expenses.

Ken Berry, JD • May. 19, 2014



Summer is the time for grilling burgers and hot dogs, escaping to the beach or woods or just relaxing and enjoying the warm weather. Of course, there's nothing to prevent

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benefits, not just goodwill, from the activity (e.g., the cost of a hospitality suite at a business convention). For entertainment associated with your business, there has to be a valid business purpose you must engage in the activity directly preceding or following a "substantial business meeting." Thus, if you celebrate closing a deal by treating the client to dinner, drinks and a show afterwards, the expenses should qualify for the deduction.

As a general rule, these expenses are subject to the 50% limit. For example, if the night on the town for you and your client (as well as spouses or significant others if they attend) comes to \$1,000, your deduction is cut in half to \$500. But there are several notable exceptions to this rule.

Prime example: If you hold an event on a company-wide basis, like a picnic or barbecue held during the summer, the usual 50% limit doesn't apply. You can write off 100% of the cost as long as you invite the entire rank-and-file. But you can't restrict the get-together to just the top brass or a select few employees. It's everyone into the pool!

What if you ask a few friends to join in the festivities? This won't negate the tax break, but any cost attributable to the social guests is nondeductible. Naturally, if you include business associates in the gathering, their expenses count toward the deductible amount.

It won't be long until summer is in full bloom. Advise your clients to start making their business entertainment plans now.

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