That's Entertainment!

It all has to do with the current tax rules for business entertainment. To be deductible as entertainment that is "associated with" your business, the activity must take place immediately before or after a substantial business discussion. Usually, this means the discussion has to be on the same day as the entertainment, but it could occur either the preceding or following day if the clients are from out of town.

Ken Berry, JD • Jun. 05, 2014

[This is the tenth and final article in a series on tax strategies for small businesses and individuals.]

Common scenario: A small business owner meets in the morning with three

dealings was closed, along with deductions for the three-martini lunch, decades ago. But that doesn't mean the owner can't deduct some of his expenses.

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Although there's no bright-line definition of "substantial business discussion," it obviously has to be more than just a cursory mention of business. Based on the facts described in the scenario above, the owner should satisfy this requirement.

So what can he deduct on his tax return? Some of the expenses that are typically deductible include the cost of greens fees, golf club rentals, golf balls and other accessories, travel to and from the club, parking, meals, drinks, and similar expenses. But there's a catch: The deduction for business entertainment is limited to 50% of your actual expenses.

Let's go back to our example. Say that the business owner pays for the works – the greens fees, the dinner and the drinks – and the tab comes to $2,000 for the foursome. In this case, he can deduct $1,000 of the cost of the outing. If he foots the bill personally, the entertainment deductions are claimed as miscellaneous expenses subject to the 2%-of-AGI floor on Schedule A.

Be forewarned: The IRS tends to view entertainment expense deductions with a grain of salt. Therefore, it's important that these expenses are carefully documented. The records should include:

- Where the substantial business meeting took place and who attended.

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