

## **STANISLAWSKI & COMPANY, INC.**

*A Certified Public Accounting and Business Consulting Firm*

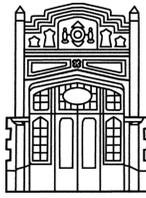
July ~ August 2010

### **RE: Meals & Entertainment Business Expenses**

Dear Friends of Stanislawski & Company, Inc.:

I hope you are having a very enjoyable summer. In this newsletter, I want to clarify the rules and regulations for meals and entertainment business expenses. As most of you are aware, the cost for meals and entertainment for your customers, clients or employees can qualify as a deductible business expense. Entertainment can be at a sporting event, theater, social club, night club or even a fishing trip (or similar event). Meal expenses that may be deductible include food, beverage, tax and tip. However, there are limitations and rules as to what qualifies as business expenses which are as follows:

- ❖ 50% of the total amount paid for most meal and entertainment expenses are deductible if the expense is **ordinary and necessary** in relation to the taxpayer's business. Some courts have held that to be deductible under Code Section 162, an expense must not only be ordinary and necessary, but also reasonable in amount and reasonable in relation to its purpose.
- ❖ Another test for the deductibility of meals and entertainment expenses depends on if the expense is **directly related** or **associated with** the business. "**Directly related**" means the main purpose of the event was business, those attending the event were actively engaged and discussed your business, and there was a general expectation that income would be derived from the interaction. It's not sufficient just to achieve general goodwill from the person you are entertaining or dining with – a direct business benefit must be expected. If the interaction does not meet the "**directly related**" test, the expense can still qualify if it is "**associated with**" the active conduct of business and the entertainment or meal precedes or follows a substantial or bona fide business discussion. The active conduct of business is the clear business purpose of the expenditure. If the deduction does not technically qualify as a meal or entertainment expense then it still might qualify as a deductible gift expense, however gift deductions are limited to \$25.
- ❖ **Substantiation** is very important to prove that an expense qualifies as a business deduction. Proper substantiation requires that the taxpayer keeps records regarding **1) the amount spent, 2) the time and place, 3) the business purpose and 4) the business relationship of those in attendance**. An easy way to keep this information is to write it on the receipt that you keep.
- ❖ There are **deduction limitations** for meals and entertainment expenses. Although there are no set dollar amounts, the expense **cannot be lavish or extravagant**. This is not to say expenses at a first rate restaurant are not deductible – there's just a test of "reasonableness" – so ordering several bottles of expensive wine for a group of 3 may not be considered reasonable.
- ❖ Generally, you cannot deduct more than the face value of an entertainment ticket, even if you paid a higher price. For example, you cannot deduct service fees you pay to ticket agencies or brokers or any amount over the face value of the tickets you pay to scalpers.



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As with every general rule, there are exceptions. The following exceptions result in the meal or entertainment expense being **fully deductible**:

Exception #1 - The expense is fully deductible when providing meals, entertainment, or recreational facilities to the general public as a means of advertising or promoting goodwill in the community.

Exception #2 - If the meal is provided to employees as a convenience to the employer on the business premises and is furnished to more than half of the employees, then the expense is fully deductible.

Exception #3 - A company holiday party expense is an exception to the general rule and is fully deductible. The following chart also gives you guidelines on different types of meal and entertainment expenses and what percentage is deductible.

| <u>Meals</u>   | <u>% of Deductible</u> |
|--|------------------------|
| Transportation to and from restaurant related to a business meal.            | 100%                   |
| Meals During Business Travel Alone (or not) while away from home on business | 50%                    |
| Portion of ANY meal that is extravagant or lavish                            | 0%                     |

| <u>Entertainment</u>  | <u>% of Deductible</u> |
|---|------------------------|
| Ticket price for sporting event with business discussion            | 50%                    |
| Scalper's premium for tickets                                       | 0%                     |
| Cover charge, taxes and tips  | 50%                    |
| Club dues   | 0%                     |
| Meals while at the Club   | 50%                    |
| Transportation to and from business-related entertainment activity. | 100%                   |

Please call us if you have any questions regarding the above information or if there is anything else we can assist you or your colleagues with. Thank you for your referrals, and your continued trust and confidence. Business is great at Stanislawski & Company, Inc. and we are looking for more.

Sincerely,

Charles G. Stanislawski, M.B.T., C.P.A

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