

Entertainment Expense

Entertainment includes any activity generally considered to provide entertainment, amusement, or recreation. Examples include entertaining guests at nightclubs; at social, athletic, and sporting clubs; at theaters; at sporting events; on yachts; or on hunting, fishing, vacation, and similar trips. Entertainment also may include meeting personal, living, or family needs of individuals, such as providing meals, a hotel suite, or a car to customers or their families. However, entertainment does not include the cost of club memberships, initiation fees, or dues.

Entertainment includes the cost of a meal you provide to a customer or client, whether the meal is a part of other entertainment or by itself. A meal expense includes the cost of food, beverages, taxes, and tips for the meal. To deduct an entertainment-related meal, you or your employee must be present when the food or beverages are provided.

You can deduct ordinary and necessary expenses to entertain a client, customer, or employee. An ordinary expense is one that is common and accepted in your field of business, trade, or profession. A necessary expense is one that is helpful and appropriate, although not necessarily required, for your business. The expenses must also meet the directly-related test or the associated test. To meet the directly related test, the main purpose of the combined business and entertainment must be the active conduct of business. To meet the associated test, you must show that the entertainment activity was associated with your trade or business and that the entertainment occurred directly before or after a substantial business discussion.

In general, you can deduct only 50% of your business-related meal and entertainment expenses. The 50% limit applies to employees or their employers, and to self-employed persons (including independent contractors) or their clients, depending on whether the expenses are reimbursed.

You should keep adequate records to prove your expenses or have sufficient evidence that will support your deductions. You must generally prepare a written record for it to be considered adequate. However, if you prepare a record in a computer memory device with the aid of a logging program, it is considered an adequate record.

You should also keep documentary evidence that, together with your record, will support each element of an expense. You generally must have documentary evidence, such as receipts, canceled checks, or bills, to support your expenses. Documentary evidence ordinarily will be considered adequate if it shows the amount, date, place, and essential character of the expense.

If you have any questions about the deductibility of entertainment expenses, please contact us.