

Dining Your Way to Deductions

October 01, 2000

Julian Block

Content provided by The Edward Lowe Foundation

There's no such thing as a free meal, especially when it comes to IRS scrutiny. There is a cap on deductions for business meals and entertainment — wining and dining only affords a 50% deduction of expenses. But be sure to claim your due.

What's Deductible?

Besides meal and entertainment charges, expenses subject to the 50% ceiling include meal- or entertainment-related taxes and tips, cover charges for night-club admissions, room rentals for dinners or cocktail parties and parking at sports arenas. However, the 50% cap *does not* apply to deductions for transportation to and from business meals, such as cab fares to restaurants or theaters.

Example: The charge for a business meal comes to \$80, which includes \$65 for food and beverages, \$5 for sales taxes and \$10 for tips. The limit on the deduction is \$40, which is 50% of \$80. However, the \$6 cab fare to the restaurant, including tip, *is 100% deductible.*

Whether you have at-home gatherings to keep clients or woo new ones, you should be up to date on strict rules for business-entertainment deductions.

To qualify for that 50% write-off, home entertaining has to satisfy either of two requirements. It must be "directly related" (there is a business discussion during the entertaining) or "associated with" business activity (the entertainment directly precedes or follows a substantial and bona fide business discussion).

Tip: There is a noteworthy exception when you host business guests from out of town. You can deduct entertaining that takes place the day before or after the business discussion.

Deductible Partying

Despite restrictions, it's possible to host a catered affair at your home before or after a business discussion, invite a few friends, and deduct 50% of qualifying expenditures.

Example: You are involved in a business venture with Ennui Enterprises.

Four Ennui executives come to your office for an afternoon business meeting. Afterward, you invite them and their spouses to a gathering at your home. Also on the guest list are five other couples who are personal friends. So, counting yourself and your spouse, a total of 20 people attend the affair.

Because the party directly follows a business discussion, it passes muster as deductible entertainment. How much do you deduct for the party? There's no deduction for expenses attributable to those five couples who are not business guests, with a 50% cap on the remaining expenditures.

Assume that the party's total cost is \$1,000. That means an allowable deduction of \$250, which is 50% of \$500 (the amount left after the total cost of \$1,000 is reduced by the \$500 allocated to those five couples who are social acquaintances, as opposed to business acquaintances).

Caution: The IRS disallows deductions for entertaining deemed "lavish or extravagant" under the circumstances. Still, the IRS realizes that hosting a first-class bash is not necessarily lavish or extravagant.

Example: The feds might be skeptical when your rationale for uncorking a \$400 bottle of wine is that it enabled you to sell \$1,000 worth of equipment, while it may agree to a deduction of a pricey libation if it helped you to land a megabucks account.

Exceptions to the Rule

Some home entertaining qualifies for a 100% deduction. Forget about a 50% cap when, for example, you use your home to host gatherings for employees — such as Christmas parties or picnics. At that kind of socializing, business does not have to be discussed. However, the full deduction applies only for an affair that is open to general employees — the rank and file, not just top executives.

Writer: Julian Block is a tax attorney in Larchmont, N.Y., and author of "[Julian Block's Tax Avoidance Secrets](#)," an annual guide now in its 13th edition.

About This Item

Category: Legal & Tax Considerations

Subcategory: Taxes

Keywords: Deductions, Taxes

Content provided by:



The Edward Lowe Foundation was created by Ed and Darlene Lowe in 1985 to "champion the entrepreneurial spirit." Headquartered near Cassopolis, Michigan, the foundation works with entrepreneur support organizations nationwide to encourage peer learning among second-stage business owners. Before his death in 1995, Ed Lowe, the creator of Kitty Litter, had become an advocate for entrepreneurship as the key to the success of the free-enterprise system.

Contact: 800-232-LOWE(5693) or edwardlowe.org

© 2006 Biz Info Library. All Rights Reserved.