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## 4 Keys to Making Entertainment Expenses Tax Deductible

In business, it is common for you to entertain your clients or potential clients. This may include taking them out for meals or other social activities. But if you think you can claim deductions on all your business entertainment expenses, you're wrong. You can only do so when your expenses meet certain criteria according to IRS Publication 463, Travel, Entertainment, Gift and Car Expenses

Here are 4 keys to making successful tax deductions from your business entertainment expenses.

### 1. The 50% Rule

The IRS only allows half of your expenses to be deducted according to the Tax Code. In addition, the IRS will also use its discretion as to whether to limit your deductions further considering the line of work you're in and where your company is located. If the IRS feels that the expenses you incurred is too lavish based on your line of work and company location, it has the right to lower your deduction to below 50%.

This 50% rule also applies to business trip entertainment. If you entertain

while traveling, your accommodation and airfare are fully deductible, but only half of your entertainment expenses can be claimed.

## **2. The Purpose for Entertaining**

If you have business associates who are your friends, you might meet up for a meal just to catch up with each other, share the latest news in your industry or compare notes. All these purposes are not acceptable purposes to claim entertainment expenses deductions.

According to the Tax Code, the main purpose of the entertainment must be 'the active conduct of business.' And you must have 'more than a general expectation of getting income or some other specific business benefit at some future time.'

The exception to this rule is where you entertain before or after a business meeting. If you bring a client out for dinner after making a business presentation to him, then your entertainment expense is deductible even if you do not discuss business over the dinner.

If you bring along your spouse or your client's spouse, your spouses' expenses are not deductible unless your spouses are essential to the business discussion.

## **3. Other Social Events**

If you take your client out to the theater, a sports function or other social event, the same rules apply. The exception to this is when the event is for charity. Then you can deduct the full amount.

#### **4. Accurate and Adequate Records**

The most important thing to have in order to make successful deductions for entertainment expenses are good records. It is recommended you maintain a log or diary to record your business entertainment expenses. If the expense is more than \$75, you also need restaurant checks, hotel bills and other receipts to substantiate the amount you're claiming.