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Q&A: Deduct Your Costs of Sponsoring Sports Teams

Question

I operate my business as a proprietorship, and I sponsor a local baseball team. I buy the uniforms (our firm name appears on them), bats, balls, and masks, and I even contribute to the fund that pays for the umpires.

I get good publicity with this. In fact, the games are reported in the local newspaper.

May I deduct the sponsorship costs as advertising?

Answer

Yes. You are right on point with Revenue Ruling 70-393 (a good thing).¹

The ruling states that the monies spent to outfit and support the team are similar to monies spent on other methods of advertising; accordingly, you may deduct them as business expenses for federal income tax purposes.

Strong Construction Case

Strong Construction Co. Inc. advertised its business primarily through either word of mouth or athletic sponsorships.

As part of the athletic sponsorships, the corporation paid for the uniforms, logo design, hats, T-shirts, sweatpants, coats, bags, and pants for all players on its sponsored teams (broomball, softball, wrestling, etc.).

In addition, Strong made monetary donations for high school wrestling organizations and provided equipment and league/tournament fees for its sponsored athletic teams.

The court ruled that the expenses were ordinary and necessary business expenses and that Strong could deduct them as advertising or promotion.²

Bower Case

One day James Bower, who owned rental housing and a commodities brokerage firm, was solicited by two local ex-collegiate basketball players to sponsor an Amateur Athletic Union (AAU) basketball team for Lafayette.

He agreed, and they created the Lafayette Bower Housing Hustlers with a roster of twelve former Indiana college basketball players and a coach. Bower was both an assistant coach and a player.

As the Hustlers' sponsor, Bower paid for the team's travel, lodging, food, promotions, AAU fees, tournament fees, gym rental, and uniforms.

The court noted that Bower's sponsorship increased his commodity brokerage commissions and generated additional clients; accordingly, the court ruled that Bower's sponsorship expenses were deductible business expenses.³

Takeaways

As you can see from the above, sponsoring sports teams—with the hope that it is going to increase your business—creates business tax deductions for advertising and promotion.

Note the word “hope” in the above paragraph. It's true: you place an ad in the newsletter, and you hope it works. The same is true when you sponsor a sports team.

But you need to treat the sponsorship as you would an ad. If you run the ad multiple times over a few years and don't get any results, you stop. You should do the same if the sponsorships are giving you no business boost.

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¹ Rev. Rul. 70-393.

² Timothy Dean Strong v Commr., T.C. Memo 2005-125.

³ James C. Bower v Commr., T.C. Memo 1990-16.