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Tax Reform: Entertainment Deductions That Survived

As you know from Tax Reform Wipes Out 50 Percent Business Entertainment Deductions, you may no longer deduct directly related or associated business entertainment.

Common forms of directly related and associated entertainment that are no longer deductible include business meals with clients or prospects, golf, football games, and similar business-building activities.

That's the bad news.

The good news is that tax code Section 274(e) pretty much survived the entertainment bloodletting. Under this section, you continue to deduct

- entertainment, amusement, and recreation expenses you treat as compensation to employees and that are included as wages for income tax withholding purposes;[1]

- expenses for recreational, social, or similar activities (including facilities therefor) primarily for the benefit of employees (other than employees who are highly compensated employees);[2]

- expenses that are directly related to business meetings of employees, stockholders, agents, or directors[3] (here, the law limits expenses for food and beverages to 50 percent[4]);

- expenses directly related and necessary to attendance at a business meeting or convention such as those held by business leagues, chambers of commerce, real estate boards, and boards of trade[5] (here, the law also limits expenses for food and beverages to 50 percent[6]);

- expenses for goods, services, and facilities you or your business makes available to the general public;[7]

- expenses for entertainment goods, services, and facilities that you sell to customers;[8] and

- expenses paid on behalf of nonemployees that are includible in the gross income of a recipient of the entertainment, amusement, or recreation as compensation for services rendered or as a prize or award.[9]

Resources

When you are considering using the survivors of tax reform's entertainment cuts, you will find good strategies in the following:

Rent Home to Corporation

Do you operate your business as an S or C corporation? If so, have you considered renting your home to your corporation for corporate meetings and perhaps the annual holiday party for employees? You should.

Why? If you do the rental right, the corporation pays you as an individual, it deducts the rent as a business expense, and you receive the rental income tax-free. See Tax-Free Income from Rental of Home to C or S Corporation.

Employee Party Trip

The government wants you to have happy employees. That's why the tax code grants you extra deductions when you provide entertainment and entertainment facilities that primarily benefit rank-and-file employees.

In this article, we examine how the rules work when you take your employees on a party trip. See The Easiest and Funnest Deduction You'll Claim This Year: 4 Rules for Writing Off Employee Outings—100%!

Employee Parties

Lawmakers may not always make your life easy, but at least you know they want you to have fun every now and then. The tax code gives you a 100 percent deduction for the parties that you throw for your employees—as long as you invite the right kind of employees. See Make Your Company Party More Fun: Find Thousands More in Legal Tax Deductions!

Vacation Home as Entertainment Facility

The entertainment facility rules are designed to destroy your entertainment facility deductions. But the law contains a number of exceptions. In Tax Deductions for Entertainment Facility (Part 4), Vacation Home, you learn how to use the business meeting and overnight lodging rules to make your vacation home a tax-deductible business asset.

Employee Entertainment Facility

Learn how employee use of your ski cabin or beach home produces a 100 percent business asset with deductions for depreciation, operating expenses, and mortgage interest.

This can make for a great fringe benefit for both the employees and you. It also can make for a profitable investment. For how this works to your benefit, see Tax Deductions for Entertainment Facility (Part 3), Employee Use.

Entertainment Facility as Compensation to Users

You have many ways to make your entertainment facility tax-deductible. For example, you can treat use of the facility as compensation to the users.

Under this rule, you give individuals either a W-2 or 1099 that includes the value of the compensation for their free use of your facility. If you give a W-2 or 1099 to a tax law–defined “specified individual” who uses your business beach home, ski lodge, or other entertainment facility, tax law limits your business’s deduction for its entertainment facilities. For compensated taxable use by non-specified individuals, the business faces no special limits on deductions for entertainment facilities.

To see how all this works for your benefit, see Tax Deductions for Entertainment Facilities (Part 2), W-2 and 1099.

Takeaways

Tax reform certainly changes some big chunks of the business landscape, including its extermination of the common and traditional directly related and associated entertainment deductions.

But you have to say thank goodness for the survival of IRC Section 274(e) entertainment. You have many parts of this tax code section to like, especially if you have employees.

In this article, you found some nuggets and links to articles that show you tax deduction strategies that you can use after tax reform, including:

1. Renting your home to your corporation.
2. Taking your employees on an employee party trip.
3. Partying with your employees.
4. Making your vacation home a deductible entertainment facility.

5. Creating an employee entertainment facility.

6. Deducting the entertainment facility, because facility use creates compensation to users.

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1 IRC Section 274(e)(2).
2 IRC Section 274(e)(4).
3 IRC Section 274(e)(5).
4 IRC Section 274(n)(1).
5 IRC Section 274(e)(6).
6 IRC Section 274(n)(1).
7 IRC Section 274(e)(7).
8 IRC Section 274(e)(8).
9 IRC Section 274(e)(9).