



**February 2018**

## Tax Reform Cuts Business Tax Deductions for Charity Golf Outings

You likely know that tax reform did away with business tax deductions for prospect and client golf.

But did you know that charity golf is gone too? Buried in tax reform is the elimination of the 100 percent business deduction for charity golf and other special charitable sporting events.<sup>1</sup>

To put this into perspective, let's say you are going with three clients to a charity golf event that's put on by a school, church, or registered 501(c)(3) organization such as the Red Cross or a cancer society. Your package cost for the foursome is \$1,000.

Before tax reform, your tax deduction was \$1,000, assuming you discussed business before, during, or after the event.

The event was considered a business event not subject to the business entertainment tax deduction cut of 50 percent.

Further, the deduction was not a charitable contribution for tax purposes, and thus you did not have to reduce your deduction under the charitable rules. This stopped on January 1, 2018.

### ***New 2018 Rules***

Let's say you didn't know about this new rule, and you paid for this golf outing using your business checking account.

Here's what's going to happen. For you to claim any tax benefit on this \$1,000 expenditure, you have to deduct the money spent under the charitable contribution rules. Here are two things that are going to happen that will not make you happy:

1. For you to qualify for the deduction, the charity has to give you a receipt that shows how much the charity realized from your \$1,000 after deducting its costs for your foursome's green fees, party bag, food, drink, and prizes. Let's say the charity's costs were \$700 and it realized \$300.
- 2.

Depending on the type of business entity you use for the business that paid the \$1,000, you likely have to write a check or make some accounting entries for this \$300 tax deduction.

## ***Proprietor***

You paid the \$1,000 from your proprietorship checking account, but your charitable tax deduction is \$300 on your personal tax return. You can't claim a charitable deduction on your Schedule C.<sup>2</sup>

You have multiple ways to get this right, but the best approach is for you to create a clean set of business books. One way to get that done is to simply write a personal check reimbursing your business for the \$1,000. That eliminates the \$1,000 business expense you have on the books now.

Then, in the file folder where you put your 1099s and other miscellaneous tax documents for the year, put the receipt from the charity that substantiates your \$300 deduction. Also, make photocopies of

- the check your business paid the charity,
- the form your business submitted to the charity to register your foursome, and
- the canceled check from your personal account that shows your reimbursement to your proprietorship account.

## ***S Corporation***

Your S corporation can handle the \$300 charitable contribution on the K-1 and the \$700 nondeductible amount as a book-to-tax reconciliation item.<sup>3</sup> Generally, you already deal with reconciling differences between your books and nondeductible items and also those items that travel to the K-1.

Alternatively, you could reimburse the S corporation and deal with the charitable deduction on your personal return, as the proprietor did above.

## ***Partnership***

Your partnership also can handle the \$300 charitable contribution on the K-1 and the \$700 nondeductible amounts as adjustments on Schedule K.<sup>4</sup>

Alternatively, you could reimburse the partnership.

## ***C Corporation***

Your C corporation deducts its \$300 charitable contribution on line 19 of its Form 1120, subject to a 10 percent of modified taxable income limitation.<sup>5</sup> The nondeductible \$700 is a Schedule M-1 book-to-tax adjustment.<sup>6</sup>

Note that the money paid to the charity was not your money; it was the C corporation's money.

## ***Planning***

You likely are not going to feel good about spending \$1,000 to get a \$300 tax deduction. And you can bet that you won't be alone.

When you took the business deduction for the \$1,000, you were not looking for any creative ways to increase your deduction. And the charity had no need to see whether it could create a bigger deduction for you.

Now you and the charity are looking at a different landscape. We don't know what creative strategies will emerge, and we certainly don't know whether they will stand the tests imposed by the IRS and the courts. But we know that we will see strategies.

For example, most golf outings have package advertising opportunities that include golfer registrations. You might pay \$1,500 for an advertising sign on the fifth tee that also entitles you to a foursome for the golf event. That raises many issues, such as:

- What's the value of the advertising? Is it \$500? \$1,000? \$1,500?
- If the golfers are included, how do you separate the value of the advertising from the cost of the golfers?

## ***Takeaways***

You have to ask why lawmakers did away with business-friendly charity golf. The killing of charity sporting events was not an accident. To get this done, lawmakers had to remove two specific tax code sections that were put in place in the Tax Reform Act of 1986 to specifically authorize 100 percent deductions for special sporting events that benefited charity.

Time will tell how this plays out. Will it make charities suffer? We know that it's intended to make businesses suffer.

From a tax planning standpoint, this could create some excitement for years to come as we see actions intended to create bigger business deductions for charity golf, skeet shoots, fishing tournaments, and a host of other similar events.

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- 1 Tax Reform eliminated both IRC Section 274(n)(2)(C) and IRC Section 274(l)(1)(B) which worked to grant the 100 percent business deduction for charity golf. You can see how the old law worked in Test Your Tax IQ: Can Charity Double Entertainment Deductions?
  - 2 2017 Instructions for Schedule C, dated Jan. 11, 2018, p. C-15.
  - 3 2016 Instructions for Form 1120S, dated Jan. 12, 2017, p. 14.
  - 4 2016 Instructions for Form 1065, Jan. 6, 2017, p. 17.
  - 5 2016 Instructions for Form 1120, Jan. 6, 2017, p. 12.
  - 6 Ibid, p. 22.
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