

Revenue Ruling 63-144

Section 274. – Disallowance of Certain Entertainment, etc., Expenses

July 1963

Answers to a series of specific questions concerning the deductibility of business expenditures for entertainment, travel and gifts in accordance with sections 1.274-1 through 1.274-8 (except for *section 1.274-5*) of the Income Tax Regulations promulgated under *section 274* (except for subsection (d) thereof) of the Internal Revenue Code of 1954.

SECTION 1. PURPOSE.

The purpose of this Revenue Ruling is to answer a series of questions relating to the provisions of the income tax regulations promulgated under *section 274* (except for subsection (d) thereof) of the Internal Revenue Code of 1954, added by the Revenue Act of 1962, C.B. 1962-3, 111. Each question is designed to present, in relatively simple terms, a point of law of general interest to taxpayers, and individual questions should be read in the context of other questions and answers which follow or precede.

Introductory

1. *Question:* How does the new law affect the old law ?

Answer: The new rules are in addition to the requirements of the old law which are still in effect. Therefore, before an expense for entertainment, travel or gifts will be deductible it must (1) be "ordinary and necessary" in carrying on your trade or business within the meaning of prior law, and (2) meet the requirements of the new rules under *section 274 of the Code*.

2. *Question:* Do the new record keeping requirements that were published in December 1962 apply in this area ?

Answer: Yes. An explanation of these record keeping rules was provided in *Revenue Procedure 63-4, C.B. 1963-1, 474*.

3. *Question:* When are these new rules effective?

Answer: These new rules became effective on January 1, 1963. However, the Internal Revenue Service (1) has extended the original 90-day transitional period (announced in *Revenue Procedure 63-3, C.B. 1963-1, 473*), for conforming accounting systems and procedures to the new requirements to July 31, 1963, and (2) will resolve reasonable doubts in favor of taxpayers when there has been a good faith effort to apply the new substantive requirements with respect to travel and entertainment expenses incurred from January 1, to July 31, 1963.

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LAVISH OR EXTRAVAGANT

42. *Question:* Will entertainment expenses be subject to disallowance on grounds of being lavish or extravagant merely because they exceed a fixed dollar amount or are incurred at deluxe restaurants, hotels, night clubs and resort establishments?

Answer: No. An expense for entertainment will not be considered lavish or extravagant

merely because it involves first class accommodations or services. An expense which, considering the facts and circumstances, is reasonable will not be considered lavish or extravagant.