

Business Entertainment

To deduct activities that constitute as entertainment, amusement, or recreation include the expenses of entertaining at night clubs, cocktail lounges, theaters, country clubs, golf and athletic clubs, sporting events, and hunting, fishing, and vacation trips.

The taxpayer must establish that the item was directly related to the active conduct of the taxpayer's trade or business or, for items directly preceding or following a substantial and bona fide business discussion, that the item was associated with the active conduct of the taxpayer's trade or business. Reg.-1.274(a)(1)(A). An item is considered directly related to the taxpayer's trade or business if it satisfies a four-part test:

1. The taxpayer had more than a general expectation of deriving some income or other specific trade or business benefit (other than the goodwill of the person or persons entertained) from making the expenditure;
 2. During the entertainment, the taxpayer actively engaged in a business meeting, negotiation, discussion, or other bona fide business transaction, for the purpose of obtaining a specific trade or business benefit, or, reasons beyond the taxpayer's control prevented such a transaction but the taxpayer had reasonably expected to engage in one;
 3. It was reasonable for the taxpayer to expect that the active conduct of trade or business would be the principal character or aspect of the entertainment; and
 4. The expenditure was allocable to the taxpayer and a person or person with whom the taxpayer engaged in the active conduct of trade or business during the entertainment or with whom the taxpayer establishes he would have engaged in such active conduct of trade or business if it were not for circumstances beyond the taxpayer's control.
- Reg.1.274-2(c)(3).

*This information should be used as a guideline. Specific questions regarding this "Biz Facts" should be directed to a Business by Design tax professional.