

But They're the Ones Writing it Off

By Reg P. Wydeven
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One of my favorite episodes of 'Seinfeld' was the one where Jerry's stereo broke. To help him get a new one, Kramer took the stereo, smashed it and mailed it back to Jerry in a package insured by the U.S. Postal Service.

When he learned of Kramer's plan, Jerry was shocked. Kramer tried to temper Jerry's fear by explaining that the insurance claim is just a 'write-off' for the post office. Jerry is still furious and accuses Kramer of not even knowing what a write-off is. Kramer calmly asked Jerry if he knew what a write-off was, and when he claimed he did not, Kramer admitted, "Neither do I, but they're the ones writing it off."

Unfortunately, Jerry and Kramer are not alone. Few people actually know what write-offs are allowed, and if allowed, to what extent. So if your business is the one writing it off, you need to know what 'it' is.

Generally, 50% of meal and entertainment expenses spent on clients, customers or employees are deductible so long as the expenses have a business connection. Entertainment expenses are not deductible, however, if they are considered lavish or extravagant. A great example of a lavish expense would be a private luxury box at Lambeau Field for Packer games. If our office got a box for Packer games, we would be able to take a deduction for up to the face value of the most expensive non-luxury box seats sold to the public. If the chicken wings and Mountain Dew are not included in the price of the box, these expenses qualify for the 50% deduction in addition to the ticket value. I'll suggest this at our next partners' meeting.

To qualify for the deduction, an employee must be present when any meal and entertainment expenses are spent on clients. If an employee is not present, the expenses are considered a business gift and are limited to a \$25 annual deduction. Therefore, I must attend all of the Packer games to qualify for the deduction.

Also, to be deductible, the meal and entertainment activity must occur while business is being conducted and meet the directly related requirement. To be directly related, the entertainment must meet three requirements. First, the main purpose of the entertainment activity must be to actively conduct the employer's business. Second, the employer must actively participate in business discussions or other activities. Finally, the employer must reasonably expect to get sales or some other business benefit.

Expenses associated with facilities connected with entertainment, amusement, or recreation are not allowed. For example, the cost of yachts, hunting lodges, fishing camps, swimming pools, tennis courts, and airplanes used to transport customers are not deductible.

Traveling expenses, such as transportation, meals and lodging, are also deductible. To be considered travel, an employee must be away from home overnight.

The most important part of the write-off is evidence. Therefore, you should save every receipt you can for these expenses. Ideally, a brief description of each expense, including the time, place, business purpose, and amount of each separate expense, would accompany the receipt.

So unfortunately, with all these receipts, your wallet may look like George Costanza's that is so full it will not close. But remember, it will also be full with all the money you save on taxes.