EMPLOYEE PARTIES/FUNCTIONS - SAVE TAXES!

Most small business owners have a single account to which they post their expenses for "business meals and entertainment". Their CPA/tax preparer deducts 50% of these expenses, not the total expense, since the "general tax rule" is that 50% of business meals/entertainment is deductible---with the other 50% not saving any income tax. **HOWEVER----all expenses which an employer pays for "recreational, social or similar activities PRIMARILY FOR THE BENEFIT OF EMPLOYEES" is 100% deductible as an "ordinary and necessary business expense".** Here is an example to illustrate the tax law treatment of entertainment/party expenses paid by a business employer:

A business spends money wining/dining a prospective customer and wins a large, profitable contract. All costs paid to entertain this prospect and win their business are only 50% deductible---even though the costs help bring in a substantial customer to the business.

This same business throws a party with its employees the next day to celebrate winning the big contract. Those expenses pertaining to the employee "party celebration" are 100% tax-deductible.

**Current tax law provides that employee parties, outings, cookouts, picnics, teambuilding events, golf outings and even cruises are 100% tax-deductible IF the expenses are "primarily for the benefit of employees"---not for entertaining clients, customers, etc. The expenses paid for spouses or guests of the employees are also 100% tax-deductible as part of the "building employee morale, loyalty and team bonding" business function served by the employee parties and functions.**

Here is the Problem and Why Most Business Owners Overpay their Taxes for Entertainment Expenses:

The vast majority of business owners have only one expense account in their chart of accounts/general ledger to which they post/charge all entertainment expenses---both customer events and employee events. Business tax preparers and their software are generally geared to simply multiply the "T&E account" for all travel, entertainment, meals, parties, etc costs----by 50%, deducting one-half the expense and not deducting the other one-half---including the 100% tax-deductible "employee function" expenses. **THE REMEDY----set up 2 expense accounts in your general ledger to separate the 50% entertainment expenses from those qualifying for a 100% "writeoff".** All employee party/function/outing/teambuilding expenses should be "posted" to an account called "Employee relations" or "100% deductible employee entertainment expenses", with the non-employee
entertainment/meals expenses posted to a separate account you title as "50% deductible entertainment expenses"-----Most small busines owners do no distinguish between the 2 separate types of business entertainment and thus only write off 50% of all those expenses - paying more taxes than they owe.

Is the Value of Employee Parties/Entertainment Taxable to Employees?

As a general rule, NO, the "entertainment value" is treated as a "de minimis working condition fringe benefit", meaning the value of the party, golf outing, employee cruise is not taxable to the employee and does not get reported in payroll or employee W-2s as income.

Do This to Save Taxes:

Set-up 2 separate accounts to track your business entertainment expenses separately for employee functions (100% deductible) and non-employee entertainment (only 50% deductible).

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