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## SAVE TAXES ON EMPLOYEE PARTIES

Most small business owners have a single general ledger account for "business meals and entertainment" expenses. 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 business owners do not distinguish between the 2 separate types of business entertainment expenses 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, etc. 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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