

Business Entertainment Expenses



What is an enrolled agent?

Enrolled agents (EAs) are America's tax experts. EAs are the **only** federally-licensed tax practitioners who specialize in taxation and also have **unlimited** rights to represent taxpayers before the Internal Revenue Service.

What are the differences between enrolled agents and other tax preparers?

An enrolled agent is a person who has earned the privilege of representing taxpayers before the Internal Revenue Service by either passing a stringent and comprehensive examination covering both individual and business tax returns, or through experience as a former IRS employee.

Enrolled agent status is the highest credential the IRS awards.

Individuals who obtain this elite status must adhere to ethical standards and enrolled agents, like attorneys and certified public accountants (CPAs), have unlimited practice rights. This means they are unrestricted as to which taxpayers they can represent, what types of tax matters they can handle, and which IRS offices they can represent clients before.

How can an enrolled agent help me?

Enrolled agents advise, represent and prepare tax returns of individuals, partnerships, corporations, estates, trusts and any other entity with tax reporting requirements. EAs prepare millions of tax returns each year and their expertise in the continually changing field of taxation enables them to effectively represent taxpayers audited by the IRS.

Some enrolled agents work only during tax season or by appointment only, while other enrolled agents have year round practices. In addition to **tax preparation** and tax representation, many enrolled agents offer other business services which may include:

- Bookkeeping
- Financial planning or budgeting
- Payroll services
- Financial statement preparation
- Tax Preparation



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Business Entertainment Expenses

You may be able to deduct business-related entertainment expenses you have for entertaining a client, customer, or employee. The rules and definitions are summarized in *Table 2-1*.

You can deduct entertainment expenses only if they are both ordinary and necessary and meet one of the following tests.

- Directly-related test.
- Associated test.

An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be required to be considered necessary.

Expenses not considered directly related.

Entertainment expenses generally are not considered directly related if you are not there or in situations where there are substantial distractions that generally prevent you from actively conducting business. The following are examples of situations where there are substantial distractions.

- A meeting or discussion at a nightclub, theater, or sporting event.
- A meeting or discussion during what is essentially a social gathering, such as a cocktail party.
- A meeting with a group that includes persons who are not business associates at places such as cocktail lounges, country clubs, golf clubs, athletic clubs, or vacation resorts.

The amount you can deduct for entertainment expenses may be limited. Generally, you can deduct only 50% of your unreimbursed entertainment expenses.

You must have **records** to prove the business purpose (under the applicable test) **and the amount of each expense, the date and place of the entertainment, and the business relationship of the persons entertained.**

<p>Table 2-1. When Are Entertainment Expenses Deductible?</p> <p>General rule</p>	<p>You can deduct ordinary and necessary expenses to entertain a client, customer, or employee if the expenses meet the directly-related test or the associated test.</p>
<p>Definitions</p>	<p>Entertainment includes any activity generally considered to provide entertainment, amusement, or recreation, and includes meals provided to a customer or client.</p> <p>An ordinary expense is one that is common and accepted in your trade or business.</p> <p>A necessary expense is one that is helpful and appropriate.</p>
<p>Tests to be met</p>	<p>Directly-related test</p> <ul style="list-style-type: none"> • Entertainment took place in a clear business setting, or • Main purpose of entertainment was the active conduct of business, and You did engage in business with the person during the entertainment period, and You had more than a general expectation of getting income or some other specific business benefit. <p>Associated test</p> <ul style="list-style-type: none"> • Entertainment is associated with your trade or business, and • Entertainment is directly before or after a substantial business discussion.
<p>Other rules</p>	<p>You cannot deduct the cost of your meal as an entertainment expense if you are claiming the meal as a travel expense.</p> <p>You cannot deduct expenses that are lavish or extravagant under the circumstances.</p> <p>You generally can deduct only 50% of your unreimbursed entertainment expenses (see <i>50% Limit</i>).</p>