

## *Taking Clients Out To The Ball Game*

Now that the baseball season is underway, you may treat a client or customer to a day at the ballpark. What can you deduct? It depends on how the tickets are used. Specifically, the expense may qualify as either (1) **business entertainment** or (2) a **business gift**.

- If you attend the game with the business client, the cost of the tickets can be deducted only as business entertainment. To qualify, the entertainment must be "directly related to" or "associated with" the conduct of your business. For this purpose, a game that precedes or follows a substantial business discussion is "associated with" entertainment.
- On the other hand, if you give the tickets away and do not attend the game, you have a choice. The expense may be deducted as business entertainment or a business gift. Key differences: the deduction for a business gift is limited to \$25 per person a year. There is no dollar limit on entertainment expenses, but only 50% of the cost is deductible.

Let's look at a few examples:

- **Example (1):** You have two tickets for a game you can't attend. The tickets cost \$30 each. If you give them to two clients, you can deduct \$50 as business gifts. In contrast only \$30 (50% of \$60) is deductible as business entertainment.
- **Example (2):** You give the two \$30 tickets to a client and his or her spouse. Now you can deduct only \$25 as business gifts. Reason: a gift to a spouse is part of the client's gift, so the \$25 limit applies. However, you still could deduct \$30 as business entertainment.
- **Example (3):** The tickets cost \$10 each. You can deduct \$20 as business gifts, even if a customer and spouse attend the game. But only \$10(50% of \$20) would be deductible as business entertainment.
- **Example (4):** The cost is still \$10 per ticket, but you give a client and spouse tickets to five games. You can deduct only \$25 as business gifts (it's an annual limit). The business entertainment deduction would be \$50 (50% of \$100).

Of course, you could do things this way: treat tickets to one game as business gifts and four games as entertainment. Result: a total deduction of \$60 (\$20 as business gifts and \$40 as business entertainment).

How do you figure the cost of **season tickets**? Divide total cost by the number of games. For example, if four tickets to five home games costs you \$500, the cost per ticket is \$25.

If you pay for the tickets on you own - you are not reimbursed by your company - expenses claimed as entertainment expenses generally are added to your other miscellaneous expenses. The total is deductible only to the extent it exceeds 2% of your adjusted gross income (AGI) after the 50% rule has been applied.

Conversely, your company generally is not subject to the 2% floor - although the 50% limit on entertainment deductions still applies. A self-employed individual generally is also exempt from the 2% floor. **Pass-through entities** such as S corporation and partnerships are subject to the 2% floor.

Keeping score: You must keep detailed records of both business entertainment expenses and business gifts. If you don't the IRS may shut out your deductions.