

Deductions for fun or no fun

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When you are having fun enjoying your summer holiday, maybe you want to think about the resignation of the Mayor of Vernon after his extravagant misuse of his taxpayer funded expense account. Do you know all the rules regarding deductibility of expenses, especially pertaining to entertainment expenses? Business people generally believe that all their entertainment expenses are deductible. Is this true or false? Surely, you do not want to find out until an audit happens.

According to the Income Tax Act, you may normally deduct reasonable amounts for food, beverages or entertainment if those amounts are to earn business income. There are two key words in this statement: the expenses must be incurred for the purpose of earning income and they must be reasonable. This means that personal expenses, such as Saturday night dinner with your spouse or a fishing trip with your buddies, are not deductible. For a \$5,000 contract, it may be reasonable to invite the customer out for dinner but inviting the customer to a cruise may raise questions. One way to help you determine if a claim is reasonable or not is to think as if your employee is making the claiming. If you have no problem approving reimbursement of the expenses, the expenses claim is likely reasonable.

To avoid tax problems, you must document each expense claimed by providing customer's name, the nature and purpose of the expenses and the fact that they are reasonable under the circumstances.

Fifty percent rule

Generally, you are allowed to only deduct 50% of the costs of food, beverage and entertainment expenses you paid. The 50% rule also applies to related expenses such as taxes and tips, and to gifts to a customer such as restaurant gift certificates.

Entertainment

We can easily understand that food and beverages means meals and drinks but what are entertainment expenses? According to the Act, entertainment includes amusement and recreation. The following items are examples of entertainment expenses and are subject to the 50% limitation:

- the cost of tickets for a theatre, concert, athletic event or other performance;
- the cost of room rentals to provide entertainment, such as a hospitality suite;

- the cost of a cruise;
- the cost of entertaining guests at night clubs, athletic, social and sporting clubs and on vacation and other similar trips.

Conferences, convention and seminars

There are also special rules apply to fees paid for attendance at a conference, convention, seminar or similar event when the fee entitles the participant to food, beverages or entertainment. The rule stipulates \$50 each day if no amount of the fee is allocated or identified for food, beverages and entertainment provided. For example, a fee of \$500 is paid for attendance for a three-day business conference. Then, \$150 (\$50 per day x 3 days) may be deemed to be amount paid for meals and entertainment and to be subject to the 50% limitation. This means that the maximum deduction for the conference is \$425 (\$500- \$150x 50%).

GST

Another issue we need to consider is claiming of the GST paid on food, beverage and entertainment expenses.

In general, the rules on the recovery of the GST paid are similar. For example, only 50% of the GST paid can be recovered on food, beverage and entertainment expenses.

So, when you are having fun entertaining your customers, you should not forget all these fun rules. Have fun.