

Table 2-1 When Are Entertainment Expenses Deductible?

General rule	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.
Definitions	<ul style="list-style-type: none"> ▮ Entertainment includes any activity generally considered to provide entertainment, amusement, or recreation, and includes meals provided to a customer or client. ▮ An ordinary expense is one that is common and accepted in your field of business, trade, or profession. ▮ A necessary expense is one that is helpful and appropriate,
Tests to be met	<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 <p>You did engage in business with the person during the entertainment period, and</p> <p>You had more than a general expectation of getting income or some other specific business benefit.</p> <hr/> <p>Associated test</p> <ul style="list-style-type: none"> ▮ Entertainment is associated with your trade or business, and ▮ Entertainment directly precedes or follows a substantial business discussion.
Other rules	<ul style="list-style-type: none"> ▮ You cannot deduct the cost of your meal as an entertainment expense if you are claiming the meal as a travel expense. ▮ You cannot deduct expenses that are lavish or extravagant under the circumstances. ▮ You generally can deduct only 50% of your unreimbursed entertainment expenses (see <i>50% Limit</i>).