

# TaxTips

## Tax Deductions for Business Gifts

The rules for being able to deduct business gifts can be tricky to navigate. Not only are the dollar amounts outdated, but sometimes gifts can get confused with entertainment expenses or promotional giveaways. Before going shopping for business gifts, be aware of the deductibility!

### General Rules

The IRS says that you can deduct up to \$25 for business gifts that you give to any one person per year, with no limit on how many people you can give gifts to. It's also acceptable to give multiple gifts to the same person during the year, as long as the value doesn't exceed \$25. The \$25 limit only covers the cost of the gift-not shipping, gift wrapping, or other incidental costs.

If you and your spouse both give business gifts to the same recipient, you are treated as one person regardless if you have separate businesses. Example: John gives a business gift, valued at \$25 to a client. His wife Jane, who owns a different business, has the same client and also gives that person a gift valued at \$25. Rather than John writing off a \$25 gift on his taxes and Jane writing off a \$25 gift on her taxes, they can only write off a maximum combined total \$25.

The \$25 limit only applies to gifts to individuals-if you give a gift to an entire company, the entire amount of the gift is deductible. Example: you drop off a fruit basket, meant for all of the company's employees, at the office's reception area. Note: this does NOT apply for entertainment tickets-see below for rules on how they are treated.

### Is it an Entertainment Expense or a Gift?

Many business owners provide clients with entertainment tickets, such as tickets to a sporting event. If you don't attend the event with the client, you can either treat the tickets as a gift or an entertainment expense. Gifts up to \$25 are fully deductible, whereas entertainment expenses are 50 percent deductible. Depending on the amount paid for the tickets, choose the option (gift or entertainment expense) that provides you with the greatest deduction.

### Promotional Giveaways and Advertising

Do you give away small promotional items, such as pens, keychains, or notepads? As long as your company name is imprinted on them, they are widely distributed, and cost \$4 or less, you can generally deduct the cost without limitation as an advertising expense. Give us a call to get advice for your specific situation.

### Employee Gifts

The IRS says certain types of employee gifts are treated as taxable income and must be added to an employee's gross wages, whereas some gifts are considered a nontaxable gift:

- All cash and gift cards, no matter the value, are taxable to the employee and must be included in an employee's gross wages.
- Non-cash gifts under \$75 per year are not taxed and are treated as a gift on the employer's tax return. The \$25 deduction limit still applies, though! Example: you paid \$50 for a holiday turkey and gave it as a gift to one of your employees. This is not considered taxable income to the employee, but the employer can only deduct \$25 of the cost of the turkey.
- Any gift worth \$75 or more is taxable to the employee and must be included in an employee's gross wages.

## Good Recordkeeping

The IRS closely monitors business gift expenses, so be sure that your records are detailed and in good order. For each gift given, keep track of the date, name of recipient, cost of the gift, and the original receipt or a PDF copy.

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