

BUSINESS GIFTS AND THE IRS GRINCH

By: JILL COOPER, CPA

Ready or not, the holidays are right around the corner. Many business owners use this time of year to show extra appreciation to their employees and others.

The IRS can be a Grinch when it comes to business gifts. Be sure to consider these rules:

- Tax deductions for gifts to employees, customers or vendors are all limited to \$25 per person no matter the value of the gift.
- Gifts that have your company name clearly and permanently imprinted on it are not considered gifts for purposes of the \$25 limit.
- If you give a turkey as a gift, it is not considered subject to the \$25 limit.
- A bonus paid to an employee is considered supplemental wages and must be added to the employee's W-2. If you want to have it net to a specific amount after taxes, (i.e. \$100), then talk to your payroll preparer about "grossing up" the amount.
- If you give a customer tickets to a theater performance or sporting event and you do not go with the customer to the performance or event, you have a choice: you can treat the cost of the tickets as either a gift expense (limited to \$25) or an entertainment expense (only 50% deductible), whichever is to your advantage.
- Cash and cash equivalent fringe benefits (gift cards, etc.) are never excluded from employee's wages, regardless of the amount.
- Deductions for de minimis gifts of food or drink are not subject to the 50% limit applied to meals and entertainment. So, a holiday party thrown at work would be fully deductible as an expense to your business.



Happy gifting but keep the Grinch in mind!

If you have any questions about this or any other business or tax issue, please contact your Account Manager or [Jill Cooper, CPA](mailto:jcooper@connerash.com), at (314) 205-2510 or via email at jcooper@connerash.com.