

## R.17

# Special Rules for Events

Entertainment expenses are not deductible.

There are two important examples of ordinary and necessary business expenses that are fully deductible, but may look like entertainment:

1. Promotional events for customers
2. Recreational, team-building, or appreciation events for employees

Promotional events such as a harvest festival are events to bring customers to your farm. They may have entertainment elements such as children's games and rides and music and dancing. These are ordinary marketing activities and the expenses are necessary so they are fully deductible as long as you can document the business purpose of the event.

Recreational events for employees such as expenses for a summer outing to the local water park are designed to help you maintain or improve employee morale, performance, retention, etc. These expenses are fully deductible as long as you can document that the purpose was related to enhancing employee performance and retention.

If you go to see music or a movie with someone who markets your products you cannot deduct the cost of the ticket - that would be considered entertainment because rather than being in a meeting with each other discussing business, you were both being entertained by something non-business-related.

You may deduct the cost of parking at a hotel and renting a hotel conference room for a business meeting. Or, you may deduct admission and parking costs if you go to a local park and have a walking meeting with someone rather than having a business meeting in a hotel conference room. The important point is that the primary purpose and activity is the business meeting.

**You will need some written notes about what you talked about that make a clear connection between the meeting and your business.**

How do you show that the primary activity and purpose was the business meeting? The best way is with notes from the meeting, or notes you write after the meeting. A follow up e-mail to the person saying "That was a great meeting! To summarize, we talked about x, y, and z and agreed to do 1, 2 and 3" would be another way to document the business purpose of the meeting.

These are examples of non-financial records that validate financial records, and situations where the receipt alone will not justify the deduction, but the receipt plus other documentation will.

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