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Meals and Entertainment Expenses: Club Dues and Membership Fees - A Summary

Dear Friends/Clients:

Often times business owners have questions about deducting meals and entertainment expenses and much confusion and misinformation often get floated around. The IRS has pages of information on the subject matter and court cases galore exist but here I will try to summarize some of the key misconceptions that I often hear and receive questions about when it comes to the arena of Club Dues and Membership Fees.

Trade Association Meetings: Again in general, you **CAN** deduct entertainment expenses that are directly related to and necessary for attending business meetings or conventions of certain exempt organizations if the expense of your attendance are related to your active trade or business. Some examples of these organizations would include chambers of commerce, business leagues, dental boards, trade associations, and professional associations.

Club Dues and Membership Fees: Again in general, You **CANNOT** deduct dues and/or initiation fees for membership in any club organized for: *Business, *Pleasure, *Recreation, or *Other Social Purposes.

This generalized rule applies to any membership organization if one of its principal purposes is either: *To Conduct Entertainment Activities for Members or Their Guests, or *To Provide Members or Their Guests with Access to Entertainment Facilities (an 'Entertainment Facility' is any property you own, rent or use for entertainment. Examples include a swimming pool, a yacht, hunting lodge, fishing camp, airplane, tennis court, bowling alley, apartment, hotel suite, home/unit in a vacation resort).

IRS regulations state that the purpose and activities of a club, NOT its name, will determine whether one can deduct the dues. Again in general, you **CANNOT** deduct dues paid to: *Country Clubs, *Golf Club Memberships, *Athletic Clubs, *Airline Clubs, *Hotel Clubs, and *Clubs Operated to Provide Meals Under Circumstances Generally Considered to be Conductive to Business Discussions.

Though the costs related to the memberships to these clubs listed above **CANNOT** be deducted the 'Out-of-pocket expenses' may be tax deductible under the proper circumstances. For example the cost of a meal to entertain a client/customer, or employee at one of these facilities may be tax deductible, another example would be the cost of say fishing bait used to entertain a client/customer at your fishing camp.

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As most of you already know in meals and entertainment expenses that are allowed by the IRS for tax deductions are generally limited to a 50% tax deduction so for example if you spend \$100 for a meal to entertain a client only \$50 will be tax deductible and that \$50. You also know that accurate, contemporaneous record should always be maintained with such information as date/time of business meeting, names of clients/customers or employees being entertained nature of the business discussion, etc.

I'm sure you have all note how often I have used the phrase 'in general', again as most of you know just like most situations in life there are always grey areas and exceptions to the rules. One example would be just that where all is legitimate and falls within IRS rules/regulation but the taxpayer/business owner does not have accurate contemporaneous records (i.e. estimates NOT allowed) then the deduction could with a very highly likelihood be disallowed.

Please feel free to contact me with any questions.

Regards

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