



By Denny Yuen, CGA, BBA

I would like to order a New York Steak and lobster, medium well, served with mash potatoes and vegetables, with gravy on the side. The bill arrives later, the business individual pays for it, and claims it as a deduction from business income. Taxpayers must understand certain rules governing the deductibility of entertainment expenses.

According to Section 67.1 of the Income Tax Act, an amount paid or payable in respect of the human consumption of food or beverages or the enjoyment of entertainment shall be deemed to be 50 % of the lesser of:

- a) the amount actually paid or payable in respect thereof, and
- b) an amount in respect thereof that would be reasonable in the circumstances

Like any expenses, an entertainment expense is deductible if the taxpayer incurs it to earn business income. A business lunch to discuss product development or human resource issues is deductible whereas a family outing or marriage banquet is not. Canada Customs & Revenue Agency insist that taxpayers should indicate whom the expense was for and the purpose of the meeting. The transaction must also be reasonable under the circumstances. Treating a client who has never paid to a Caribbean cruise is not reasonable whereas treating a client whose business contributes to more than 60% of your revenue is not.

Quite often, taxpayers invite their clients to cultural or recreational events such as film festivals or hockey games to retain or attract potential clients. On other occasions, they would send gifts to their clients during Christmas. These entertainment expenses are deductible up to the 50 % limit and as long as it is reasonable. Note that under Section 18(1) (l) of the Income Tax Act, no deduction can be claimed for the following two types of expenses:

- a) for the use or maintenance of property that is a yacht, a camp, a lodge or a golf course or facility, unless the taxpayer made or incurred the outlay or expense in the ordinary course of the taxpayer's business of providing the property for hire or reward, or
- b) as membership fees or dues (whether initiation fees or otherwise) in any club the main purpose of which is to provide dining, recreational or sporting facilities for its members.

Payment for the use of a golf course or expenses incurred at a fishing lodge is not deductible. However, meals incurred before or after the golfing event despite being consumed at the golf facility is deductible. Membership fees at a gym facility or tennis club are not deductible because the main purpose of these facilities is to provide recreational activities for its members.

Continued on page 2



Page 2

Not all entertainment expenses are subject to the 50 % deduction limit. Entertainment where the amount:

- a) is paid or payable for food, beverages or entertainment provided for, or in expectation of, compensation in the ordinary course of a business carried on by that person of providing the food, beverages or entertainment for compensation
- b) relates to a fund raising event that primary purpose of which is to benefit a registered charity.

So, if you decide to invite your client to a fundraising gala dinner hosted by the BC Heart & Stroke Foundation, the entire amount is deductible.

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