Reg. Section 1.274-2(b)  
Disallowance of deductions for certain expenses for entertainment, amusement, recreation, or travel

(b) Definitions—

(1) Entertainment defined—

i. In general. For purposes of this section, the term "entertainment" means any activity which is of a type generally considered to constitute entertainment, amusement, or recreation, such as entertaining at night clubs, cocktail lounges, theaters, country clubs, golf and athletic clubs, sporting events, and on hunting, fishing, vacation and similar trips, including such activity relating solely to the taxpayer or the taxpayer's family. The term "entertainment" may include an activity, the cost of which is claimed as a business expense by the taxpayer, which satisfies the personal, living, or family needs of any individual, such as providing food and beverages, a hotel suite, or an automobile to a business customer or his family. The term "entertainment" does not include activities which, although satisfying personal, living, or family needs of an individual, are clearly not regarded as constituting entertainment, such as (a) supper money provided by an employer to his employee working overtime, (b) a hotel room maintained by an employer for lodging of his employees while in business travel status, or (c) an automobile used in the active conduct of trade or business even though used for routine personal purposes such as commuting to and from work. On the other hand, the providing of a hotel room or an automobile by an employer to his employee who is on vacation would constitute entertainment of the employee.

ii. Objective test. An objective test shall be used to determine whether an activity is of a type generally considered to constitute entertainment. Thus, if an activity is generally considered to be entertainment, it will constitute entertainment for purposes of this section and section 274(a) regardless of whether the expenditure can also be described otherwise, and even though the expenditure relates to the taxpayer alone. This objective test precludes arguments such as that "entertainment" means only entertainment of others or that an expenditure for entertainment should be characterized as an expenditure for advertising or public relations. However, in applying this test the taxpayer's trade or business shall be considered. Thus, although attending a theatrical performance would generally be considered entertainment, it would not be so considered in the case of a professional theater critic,
attending in his professional capacity. Similarly, if a manufacturer of
dresses conducts a fashion show to introduce his products to a group of
store buyers, the show would not be generally considered to constitute
entertainment. However, if an appliance distributor conducts a fashion
show for the wives of his retailers, the fashion show would be
generally considered to constitute entertainment.

iii. Special definitional rules—

a. In general. Except as otherwise provided in (b) or (c) of
this subdivision, any expenditure which might generally
be considered either for a gift or entertainment, or
considered either for travel or entertainment, shall be
considered an expenditure for entertainment rather than
for a gift or travel.

b. Expenditures deemed gifts. An expenditure described in
(a) of this subdivision shall be deemed for a gift to
which this section does not apply if it is:

1. An expenditure for packaged food or
beverages transferred directly or
indirectly to another person intended for
consumption at a later time.

2. An expenditure for tickets of admission
to a place of entertainment transferred to
another person if the taxpayer does not
accompany the recipient to the
entertainment unless the taxpayer treats
the expenditure as entertainment. The
taxpayer may change his treatment of
such an expenditure as either a gift or
entertainment at any time within the
period prescribed for assessment of tax
as provided in section 6501 of the Code
and the regulations thereunder.

3. Such other specific classes of
expenditure generally considered to be
for a gift as the Commissioner, in his
discretion, may prescribe.

c. Expenditures deemed travel. An expenditure described
in (a) of this subdivision shall be deemed for travel to
which this section does not apply if it is:

1. With respect to a transportation type
facility (such as an automobile or an
airplane), even though used on other
occasions in connection with an activity
of a type generally considered to
constitute entertainment, to the extent
the facility is used in pursuit of a trade or
business for purposes of transportation
not in connection with entertainment.
See also paragraph (e)(3)(iii)(b) of this
section for provisions covering
nonentertainment expenditures with
respect to such facilities.

2. Such other specific classes of
expenditure generally considered to be
for travel as the Commissioner, in his
discretion, may prescribe.

(2) Other definitions—

i. Expenditure. The term "expenditure" as used in this section shall
include expenses paid or incurred for goods, services, facilities, and
items (including items such as losses and depreciation).

ii. Expenses for production of income. For purposes of this section, any
reference to "trade or business" shall include any activity described in
section 212.

iii. Business associate. The term "business associate" as used in this
section means a person with whom the taxpayer could reasonably
expect to engage or deal in the active conduct of the taxpayer's trade or
business such as the taxpayer's customer, client, supplier, employee,
agent, partner, or professional adviser, whether established or
prospective.