

Revenue Ruling 63-144, Q&A 87

Answers to a series of specific questions concerning the deductibility of business expenditures for entertainment, travel and gifts in accordance with sections 1.274-1 through 1.274-8 (except for section 1.274-5) of the Income Tax Regulations promulgated under section 274 (except for subsection (d) thereof) of the Internal Revenue Code of 1954.

SECTION 1. PURPOSE

The purpose of this Revenue Ruling is to answer a series of questions relating to the provisions of the income tax regulations promulgated under section 274 (except for subsection (d) thereof) of the Internal Revenue Code of 1954, added by the Revenue Act of 1962, C.B. 1962-3, 111. Each question is designed to present, in relatively simple terms, a point of law of general interest to taxpayers, and individual questions should be read in the context of other questions and answers which follow or precede.


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TRAVEL EXPENSE ALLOCATION

86. Question: Assuming the new travel allocation rule applies to a trip which takes 16 days, of which 8 days are business days and the remainder vacation days, and the round trip transportation cost is \$300, how much of the cost is deductible?

Answer: Since one-half (8/16) of the trip was business, one-half of the round trip cost of \$150 would be deductible as a business travel expense.

Business Gifts



87. Question: Can I deduct the cost of a business gift?

Answer: Yes, up to \$25 annually for each recipient. If the total cost of all of your business gifts to one individual during the taxable year exceeds \$25, you may only deduct \$25.

88. Question: Since different rules apply to entertainment and to gifts, when is an expenditure considered "entertainment" and when is it a "gift?"

Answer: Any item which might be considered either entertainment or a gift generally will be considered to be entertainment and not a gift. However, special rules describe certain items as gifts. For example, packaged food or beverages, furnished to a business customer for consumption at a later date, are considered as gifts.

89. Question: If I provide tickets to a theater performance or to a sporting event to a business customer, is the cost of the tickets considered an expense for entertainment or a gift?

Answer: If you do not accompany your customer to the event, you may treat the cost of the tickets either as a gift or as entertainment, whichever is most advantageous to you. In such a case, you may change your treatment of the expense as either a gift or entertainment during the time prescribed for assessment of tax as provided in section 6501 of the Code. In most instances, this would be the three-year period following the due date of your income tax return. However, if you do accompany the customer to the entertainment event, the cost of the tickets must be treated as an entertainment expense.

INDIRECT GIFTS

90. Question: Is a gift to the wife of a business customer treated separately from a gift to the customer himself?

Answer: The \$25 limitation applies to gifts made "directly or indirectly" to an individual. A gift made to the wife of a business customer of the taxpayer is generally considered as made indirectly to the customer. However, if the customer's wife has an independent business connection with the taxpayer, a gift to her would not be regarded as an indirect gift to her husband unless it was intended for his eventual use or benefit.

91. Question: If corporation X gives to corporation Y a large number of inexpensive gifts, such as tickets to local baseball games, are they subject to the \$25 limitation?

Answer: Not necessarily. The limitation applies only to gifts made directly or indirectly to an individual. If the gift is not intended for the eventual personal use or benefit of a particular individual or a limited class of individuals, the gift will not be considered to be made to an individual.

92. Question: If I provide a gift to a business associate which costs \$25, and my wife gives him a gift costing \$25 during the same year, may we deduct both gifts?

Answer: No. A husband and wife who make gifts are considered one taxpayer for purposes of computing the \$25 limitation. This rule applies even if the husband and wife have separate businesses and each has an independent business connection with the recipient.