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Robert W. Wood
THE TAX LAWYER

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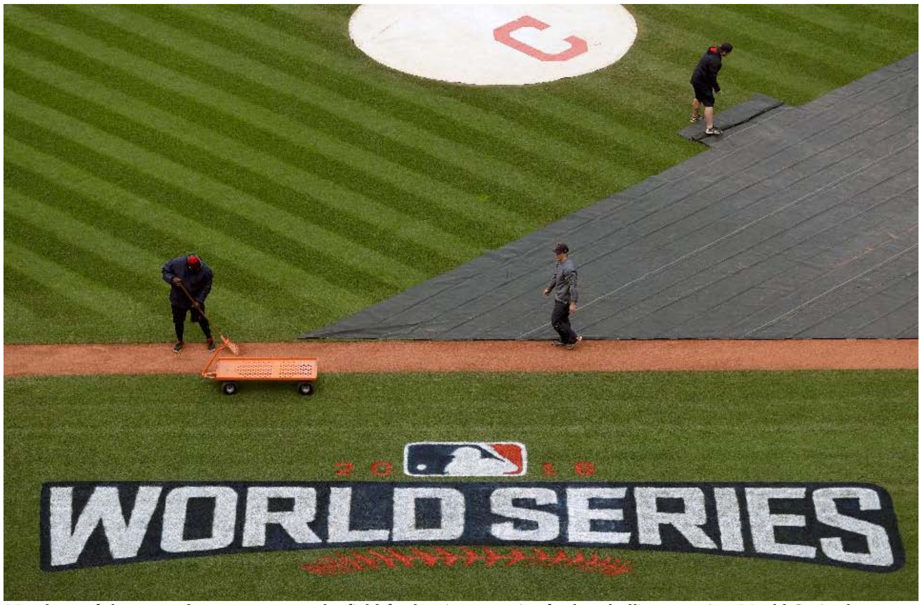
World Series Tickets Are Costly, But Tax Write-Offs Can Help

As Cubs and Indians fans make for record World Series ticket prices, should American taxpayers foot part of the bill for business entertainment at the World Series? With some ticket prices in the stratosphere, it's not a silly question. Way back in 1961, President Kennedy said that, ''The slogan —'It's deductible'—should pass from our scene.'' But it hasn't happened. If anything, the focus on tax deductions has gotten worse. Generally, the tax law says you can deduct reasonable business expenses, but not lavish or extravagant ones. So how can expensive sports tickets be deductible?

First, only 50% of the cost is usually deductible, even if you are doing business. To claim a deduction for tickets, a sporting event must be directly related to the conduct of business. This generally requires a business meeting, negotiation, discussion, or other *bona fide* business transaction during the event. Is that realistic at a noisy sporting event? It may not be. Fortunately, though, entertainment can be deductible even if actual business isn't conducted, if the entertainment either precedes or follows a business meeting.



Members of the grounds crew prepare the field for batting practice for baseball's upcoming World Series between the Cleveland Indians and the Chicago Cubs, Monday, Oct. 24, 2016 in Cleveland. (AP Photo/David J. Phillip)

If you want to read about IRS line-drawing for these expenses, check out IRS Publication 463, Travel, Entertainment, Gift, and Car Expenses. The IRS says that even if your expenses do not meet the directly-related test, they may meet the 'associated test.' To meet the associated test for entertainment expenses (including entertainment-related meals), you must show that the entertainment is: associated with the active conduct of your trade or business, and directly before or after a substantial business discussion. Generally, an expense is associated with the active conduct of your trade or business if you can show that you had a clear business purpose for having the expense. The purpose may be to get new business or to encourage the continuation of an existing business relationship.

Whether a business discussion is substantial depends on your facts. A business discussion will not be considered substantial unless you can show that you actively engaged in the discussion, meeting, negotiation, or other business transaction to get income or some other specific business benefit. The meeting does not have to be for any specified length of time, but you must show that the business discussion was substantial in relation to the meal or entertainment. It is not necessary that you devote more time to business than to entertainment. You do not have to discuss business during the meal or entertainment.

If you qualify, the amount identified for the ticket price, along with any food and beverage expense, is deductible subject to the 50% limit generally applicable to meals and entertainment expenses. And since we're talking about high ticket prices, how high is too high?Even if a business expense is legit, you can't deduct it if it is lavish or extravagant. Exactly what is lavish or extravagant isn't clear. It is sometimes defined as a business expense that is significantly higher than what is considered reasonable. Say a company pays triple the market rate for something. That amount may be a lavish or extravagant expense. That makes them–or at least the portion deemed lavish by the IRS–not tax deductible.

Of course, the mere fact that you might conduct business entertainment at a high-end restaurants or hotels doesn't mean that your expenses are lavish. Consider some of the world's most extravagant meals. And if you do deduct something, how much does a tax deduction reduce the cost? If your combined state and federal tax rate is 50%, a costly item is actually half price, which isn't bad. In some cases, you can even deduct items when you don't have receipts. A rule that the IRS keeps quiet is that receipts are sometimes optional.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.