

O'NEIL & STEINER, PLLC

CASH, GIFT CARDS, AND BUSINESS GIFTS

Bonuses, Awards, Gifts, etc.

Giving cash, gift cards, tickets to sporting events or concerts, etc. is a common way small business owners try to show their appreciation to their valued employees, customers, and vendors. However, these transactions are commonly misunderstood for tax purposes.

Business owners are allowed to give “de minimis gifts” without having to separately account for them. De Minimis refers to the cost of being small, spent numerous times, and not worth the time and effort necessary to account for.

For example, if an employer buys five candy bars per week for \$2 each and gives them to the five employees who worked the hardest the previous week, the owner could consider the cost of the candy bars to be de minimis and not treat them as additional wages reportable on payroll tax reports and W-2 forms. Similarly, if a candy bowl is made available on a front desk for customers to grab from when visiting the business, the cost of the candies would be de minimis and therefore would not be separately as “business gifts” (more on business gifts later).

Cash or Cash Equivalents

One of the most common mistakes is giving in the form of cash (meaning cash, check, or any electronic payment method) or “cash equivalents”. Cash equivalents include anything that can be used to purchase goods or services (gift certificates, gift cards, and prepaid debit/credit cards for example). IRS regulations state cash and cash equivalents can never be considered de minimis.

Because they never qualify as de minimis, giving even a penny or a gift card worth 10 cents to an employee, customer, or vendor would require inclusion as wages (if given to an employee), inclusion when calculating deductible business gifts (if given to a customer or vendor), or not being able to deduct the cost at all.

Business Gifts

Gifts to customers or vendors (but not employees) in the regular course of business are deductible as long as the gift is a reasonable one. This is true even for cash or cash equivalents. However, the business gift deduction is limited to \$25 per person per year. You can give more valuable gifts, but you'll only be able to deduct up to \$25 of the cost of each. So, for example, if you gave a customer a \$100 gift card, you would be able to deduct \$25 but not the other \$75. The same would be true for a gift basket, turkey, or any other gift that cost you \$100.

Small gifts (under \$4 in value) that have the company name on them and are distributed in large numbers qualify as de minimis and don't count towards the \$25 limit. Pens, notepads, key chains, etc. are examples of these kinds of gifts. So, you can give a customer or vendor a key chain (with cost under \$4) with your company name and logo as well as a \$25 gift card deduct the whole amount of each.

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Entertainment

Entertainment costs are not deductible under the Tax Cuts & Jobs Act. IRS regulations state that if a cost could be considered non-deductible entertainment or a business gift it must be treated as a non-deductible entertainment cost. So, if you buy two tickets to a concert and take a customer, vendor, or employee with you, the tickets are non-deductible entertainment costs. No portion of the expense could be deducted as a business gift.

One exception exists, if you don't attend (and therefore it can't be considered an entertainment cost), you could at least deduct up to \$25 of your cost.

Be sure to ask questions if any of the above is confusing.