



What you need to know about deducting business gifts

Thoughtful business gifts are a great way to show appreciation to customers and employees. They can also deliver tax benefits when handled correctly. Unfortunately, the IRS limits most business gift deductions to \$25 per person per year, a cap that hasn't changed since 1962. Still, with careful planning and good recordkeeping, you may be able to maximize your deductions.

When the \$25 rule doesn't apply

Several exceptions to the \$25-per-person rule can help you deduct more of your gift expenses:

Gifts to businesses. The \$25 limit applies only to gifts made directly or indirectly to an individual. Gifts given to a company for use in its business — such as an industry reference book or office equipment — are fully deductible because they serve a business purpose. However, if the gift primarily benefits a specific individual at that company, the \$25 limit applies.

Gifts to married couples. When both spouses have a business relationship with you and the gift is for both of them, the limit generally doubles to \$50.

Incidental costs. The expenses of personalizing, packaging, insuring or mailing a gift don't count toward the \$25 limit and are fully deductible.

Employee gifts. Cash or cash-equivalent gifts (such as gift cards) are treated as taxable wages and generally are deductible as compensation. However, noncash, low-cost items — like company-branded merchandise, small holiday gifts, or occasional meals and parties — can qualify as nontaxable “de minimis” fringe benefits. These are deductible to the business and tax-free to the employee.

How entertainment gifts are treated now

Under the Tax Cuts and Jobs Act, most entertainment expenses are no longer deductible. This includes tickets to sporting events, concerts and other entertainment, even when related to business. However, if you give event tickets as a gift and don’t attend yourself, you may be able to classify the cost as a business gift, subject to the \$25 limit and any applicable exceptions.

Note that meals provided during an entertainment event may still be 50% deductible if they’re separately stated on the invoice.

Why good recordkeeping matters

To claim the full deductions you’re entitled to, document your gifts properly. Record each gift’s description, cost, date and business purpose and the relationship of the recipient to your business. Digital records are acceptable — such as accounting notes or CRM entries — as long as they clearly support the deduction.

Track qualifying expenses separately in your books. That way they can be easily identified.

Make your business gifts count

A little knowledge and planning can go a long way toward ensuring your business gifts are both meaningful and tax-smart. If you’d like help reviewing your company’s gift-giving policies or want to confirm how the deduction rules apply to your situation, contact our office. We’ll help your business keep compliant with tax law while you show appreciation to your customers and employees.