

Make Your Gifts Less Taxing - 5/1/2000

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by Sandy Botkin, CPA, Esq.

Wouldn't it be great if we could deduct these year-end holiday gifts that we give each year? Well, guess what? You can, if you know what you're doing.

The general rule is that business gifts are deductible if given to business prospects. Thus, the question is: what constitutes a business gift? Thus, those house warming gifts, wedding gifts and even holiday gifts made to prospects are deductible. That's the good news, now for the bad news. You are generally limited to \$25 per person per year and a husband-wife couple is treated as one person.

Example: Tony gives me a house warming gifts of a large flower arrangement costing \$350. He can only deduct \$25 of this amount.

Note: Small items costing \$4 or less given to large amounts of people are not considered gifts but promotions and are 100% deductible. Thus, if you put your name and address on pens or calendars, you may deduct 100% of the cost of these items.

There is an old saying, "where there is a will, there is a lawyer." There are some exceptions to the above rule where you can deduct 100% of the gift even if it is not a promotion.

One exception is if you make the gift to an organization without designating any single individual as the beneficiary of the gift, you may deduct 100% of the cost of the gift.

Example: TRI gives a gift of candy costing \$100 to a national company for the benefit of its employees as a thank you for their business. TRI may deduct 100% of the cost of the gift. There was no one person mentioned who was to receive the gift. If, however, the gift was made to the president of the company, only \$25 may be deducted.

The second exception involves making gifts of entertainment tickets. These items can either be treated as business gifts (which is deductible at 100% up to \$25) or as gifts of entertainment (which is 50% deductible with no limit). Thus, if your tickets cost less than \$50, you would be better off treating these as business gifts. However, for more expensive tickets, you would be better off treating these items as gifts of entertainment and deducting 50% of the entire cost of the tickets.

The bottom line is that with proper tax knowledge, you can make your life a lot less taxing!

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