

Holiday parties and gifts can help show your appreciation and provide tax breaks

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With Thanksgiving behind us, the holiday season is in full swing. At this time of year, your business may want to show its gratitude to employees and customers by giving them gifts or hosting holiday parties. It's a good idea to understand the tax rules associated with these expenses. Are they tax deductible by your business and is the value taxable to the recipients?

Customer and client gifts

If you make gifts to customers and clients, the gifts are deductible up to \$25 per recipient per year. For purposes of the \$25 limit, you don't need to include "incidental" costs that don't substantially add to the gift's value, such as engraving, gift wrapping, packaging or shipping. Also excluded from the \$25 limit is branded marketing collateral — such as small items imprinted with your company's name and logo — provided they're widely distributed and cost less than \$4.

The \$25 limit is for gifts to individuals. There's no set limit on gifts to a company (for example, a gift basket for all team members of a customer to share) as long as they're "reasonable."

Employee gifts

In general, anything of value that you transfer to an employee is included in his or her taxable income (and, therefore, subject to income and payroll taxes) and deductible by your business. But there's an exception for noncash gifts that constitute a "de minimis" fringe benefit.

These are items small in value and given infrequently that are administratively impracticable to account for. Common examples include holiday turkeys or hams, gift baskets, occasional sports or theater tickets (but not season tickets), and other low-cost merchandise.

De minimis fringe benefits aren't included in your employee's taxable income yet they're still deductible by your business. Unlike gifts to customers, there's no specific dollar threshold for de minimis gifts. However, many businesses use an informal cutoff of \$75.

Important: *Cash* gifts — as well as cash equivalents, such as gift cards — are included in an employee's income and subject to payroll tax withholding regardless of how small and infrequent.

Throwing a holiday party

Under the Tax Cuts and Jobs Act, certain deductions for business-related meals were reduced and the deduction for business entertainment was eliminated. However, there's an exception for certain recreational activities, including holiday parties.

Holiday parties are *fully* deductible (and excludible from recipients' income) so long as they're primarily for the benefit of non-highly-compensated employees and their families. If customers, and others also attend, holiday parties may be partially deductible.

Spread good cheer

Please contact us if you have questions about giving holiday gifts to employees or customers or throwing a holiday party. We can explain the tax rules.

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