

When are Gifts Deductible as a Business Expense?

Business expenses for gifts are deductible only to the extent that they do not exceed \$25 for gifts made directly or indirectly to any individual during the same tax year do not exceed \$25. A married couple is treated as one taxpayer. If a partnership gives a gift, the partnership and its partners are also treated as one taxpayer; thus, the restriction and its exceptions apply to both the partnership and each of its partners.

Application and exclusions. The \$25-per-year limit applies only to gifts that are:

- (1) expenses incurred in the ordinary course of a trade or business or in activities for the production of income; and
- (2) excludable from the recipient's gross income as gifts under IRC §102, and not under any other provision.

An employer's gifts to employees are not excludable from the employees' income as gifts; thus, they are not subject to the \$25 limit. However, a different set of deduction restrictions may apply to employee achievement awards, as discussed at [Are Employee Achievement Awards Deductible as Business Expenses?](#)

Exceptions. The \$25 limit does not apply to the following transfers:

- an employee's excludable death benefit,
- an excludable scholarship, or
- an excludable prize or award.

The \$25 limit also does not apply to:

- (1) an item that (a) costs the taxpayer no more than \$4.00, (b) has the taxpayer's name clearly and permanently imprinted on it, and identical items distributed generally by the taxpayer, such as promotional items like pens, desk sets, and plastic bags and cases;
- (2) a sign, display rack, or other promotional material to be used on the recipient's business premises.

Gift expense. The expense for a gift is the cost of the gift to the giver, other than incidental costs such as for customary engraving on jewelry, or for packaging, insurance, and mailing or other delivery. An incidental cost cannot add substantial value to the gift. For example, the cost of customary gift wrapping is an incidental cost, but the cost of an ornamental basket for packaging fruit is not an incidental packaging cost unless its value is insubstantial in relation to the value of the fruit.

A cost that could be for a gift or for entertainment is generally treated as an entertainment expense, so its deductibility is governed by the rules for entertainment expenses. However:

- An expenditure is for a gift, rather than entertainment, if it is for packaged food or beverages transferred directly or indirectly to another person and intended for consumption at a later time.
- An expenditure for tickets is a gift, rather than entertainment, if the tickets are transferred to another person and the taxpayer does not accompany the recipient to the entertainment. However, the taxpayer can choose to treat the expenditure as entertainment. The taxpayer may change the treatment of the expenditure as either a gift or entertainment at any time, as long as the assessment limitations period is still open for the year at issue.