Tax Insights

Live Event Ticket Deductions

What employers and employees need to know when deducting ticket costs

TAKING CURRENT OR POTENTIAL BUSINESS ASSOCIATES to a football game, concert, musical or other live event helps develop and sustain business relationships. The Internal Revenue Code (IRC) acknowledges the legitimacy of treating ticket costs for such activities as tax-deductible business expenses.

Individuals or organizations seeking to claim such costs, however, need to be aware of IRC provisions that define the percentage of expense that may be claimed, the circumstances in which such deductions may be claimed, and the substantiation processes employees and employers must follow when claiming such deductions.

IRC Guidelines for Deducting Live Event Ticket Costs

IRC §274 (N) pertains to entertainment expenses. Live event tickets, including tickets to various sporting events, are generally regarded as entertainment expenses. That means 50 percent of the ticket cost can be deducted as an entertainment expense. Treasury Regulation §1.62-2 (c)(2) addresses the accountable plan employees and employers must follow for claiming that deduction. The following three criteria must be met:

1. First, the ticket cost must be incurred by the employee in connection with performance of services to the employer. Substantiation may include a receipt or other proof of ticket purchase as well as information regarding the date, time and business purpose for the expense.
2. Secondly, an employee must provide an employer with proof of the expense within a reasonable amount of time. Treasury Regulation §1.62-2 (g)(2) offers two safe harbor provisions:
   - The first provision is a fixed-date method. With that method, advances to the employee must be made within 30 days of the expense being paid or incurred. Expenses must be substantiated within 60 days of being incurred.
   - The second safe harbor is the periodic statement method. That method requires an employer to issue employees statements - at least four times a year - listing unsubstantiated business expenses. The statement needs to include instructions requiring employees to submit substantiation within 120 days.
3. Thirdly, any reimbursements made to employees in excess of substantiated business expenses must be returned to the employer. Both safe harbor methods require that unsubstantiated reimbursements be returned within 120 days. For the first safe harbor method, that 120-day span begins with the date the expense was paid or incurred. With the second safe harbor method, that 120 day span begins with the date the periodic statement was issued.

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Rules Regarding Luxury Suite Admissions

MANY BUSINESSES RENT LUXURY SUITES at venues where baseball games, football games and other events are held. Lease agreements for such suites encompass numerous items, including individual admissions or tickets for each event. The admission or ticket price deduction for an event viewed from a luxury suite, however, is limited to 50 percent of the highest-priced ticket, at face value, available to the general public. An organization leasing a luxury suite needs to determine the appropriate ticket price. For a major league baseball game, the luxury suite admission price might be based on the ticket price for lower-level box seats near one of the two teams' dugouts. For an NFL football game, the cost of an upper deck seat between the 40-yard lines might be used for determining a luxury suite ticket price. Costs for beverages and food consumed within a luxury suite may be deducted at the 50 percent rate allowed for entertainment expenses, as they would be for events viewed from public seating areas.

Educate and Substantiate

EMPLOYERS NEED TO BE AWARE of IRC provisions regarding deductions for tickets to live events, and in turn must educate affected employees. Related processes must be implemented and followed to ensure such tax deduction claims are substantiated.

CONTACT US

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