

# Canham Rogers

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## **ENTERTAINMENT EXPENSES**

### **Excerpt - Canadian Income Tax Act:**

Deductions 18. (1) General limitations

In computing the income of a [taxpayer](#) from a [business](#) or [property](#) no deduction shall be made in respect of:

(a) General limitation

an outlay or expense except to the extent that it was made or incurred by the [taxpayer](#) for the purpose of gaining or producing income from the [business](#) or [property](#);

### **Excerpt - Canadian Income Tax Act:**

Deductions 18. (l) Use of recreational facilities and club dues

an outlay or expense made or incurred by the [taxpayer](#) after 1971,

(i) for the use or maintenance of [property](#) that is a yacht, a camp, a lodge or a golf course or facility, unless the [taxpayer](#) made or incurred the outlay or expense in the ordinary course of the [taxpayer's](#) [business](#) of providing the [property](#) for hire or reward, or

(ii) as membership fees or dues (whether initiation fees or otherwise) in any club the main purpose of which is to provide dining, recreational or sporting facilities for its members;

### **Excerpt - Canadian Income Tax Act:**

67.1. - (1) Expenses for food, etc

For the purposes of this Act, other than sections [62](#), [63](#), [118.01](#) and [118.2](#), an [amount](#) paid or payable in respect of the human consumption of food or beverages or the enjoyment of entertainment is deemed to be 50% of the lesser of

(a) the [amount](#) actually paid or payable in respect thereof, and

(b) an [amount](#) in respect thereof that would be reasonable in the circumstances.

### **Excerpt - CRA Interpretation Bulletin IT-148R3 - Recreational Properties and Club Dues**

*July 21, 1997*

Golf course or facility

4. The word "facility" as used in subparagraph 18(1)(l)(i), refers solely to a golf course and is intended to extend the words "golf course" to include any

amenities provided by a golf club, such as a restaurant, dining room, lounge, banquet hall, conference room, health club, swimming pool, curling rink or tennis courts.

Green fees or membership fees in a golf club are not deductible by virtue of paragraph 18(1)(l). In addition, expenses incurred for food and beverages at, and for the use of, a restaurant, dining room, lounge, banquet hall or conference room of a golf club in conjunction with a game of golf or other recreational activity at the golf club are not deductible by virtue of subparagraph 18(1)(l)(i). Expenses incurred for food and beverages at a restaurant, dining room, banquet hall or conference room of a golf club are not subject to paragraph 18(1)(l), provided there is a genuine business purpose to the use of the facilities and the expenses are not incurred in conjunction with a game of golf or other recreational activity at the golf club.

### **Excerpt – CRA IT-518R - Food, Beverages and Entertainment Expenses**

*April 16, 1996*

Food and Beverages

17. The 50% limitation applies to the cost of food or beverages for human consumption including any related expenses such as taxes and tips. In addition, the cost of a restaurant gift certificate is considered to be an expense for food or beverages and is subject to this limitation.

Entertainment

18. Paragraph 67.1(4)(b) includes amusement and recreation as "entertainment". Section 67.1 also mentions the "enjoyment of entertainment". This refers to the mere attendance at or experience of the event or service.

While not an exhaustive list, the following items are considered to be entertainment expenses and are subject to the 50% limitation:

- (a) the cost of tickets for a theatre, concert, athletic event or other performance;
- (b) the cost of private boxes at sports facilities;
- (c) the cost of room rentals to provide entertainment, such as a hospitality suite;
- (d) the cost of a cruise;
- (e) the cost of admission to a fashion show;
- (f) the cost of entertaining guests at night clubs, athletic, social and sporting clubs and on vacation and other similar trips.

Expenses related to the above items, such as taxes, gratuities, and cover charges, are also subject to the 50% limitation.

19. For any outlay for entertainment to qualify as a deductible expense, a taxpayer must be prepared to demonstrate that the amount was incurred for the purpose of earning income (see the current version of [IT-487](#), *General Limitations on Deductions of Outlays or Expenses*). Records should be maintained of the names and business addresses of the customers or other persons being entertained, together with the relevant places, dates, times and amounts supported by such vouchers as are reasonably obtainable. Expenses that are personal in nature (other than expenses incurred by the taxpayer while

away from home in the course of carrying on business) are not deductible by virtue of paragraph 18(1)(h). Payments for the services of a security escort or tour guide for a business client are normally deductible (subject to the 50% limitation) provided the amounts were incurred for the purpose of earning income. However, payments to what are sometimes called "escort services" for illicit services of a personal nature are never considered to be deductible outlays.

#### Employer-Sponsored Events or Services Available to All Employees

9. Under paragraph 67.1(2)(e), the 50% limitation does not apply if the employer incurs the amount for food, beverages or entertainment that is generally available to all its employees at a particular place of business and is consumed or enjoyed by them. This exempts costs incurred for a Christmas party or similar event to which all employees at a particular place of business have access. Employer-operated restaurants or cafeterias that are available to all employees at a particular place of business are also not subject to the 50% limitation. However, subsidized meals may give rise to a taxable benefit to the employees, depending on whether or not a reasonable charge is paid — see the current version of [IT-470](#), *Employees' Fringe Benefits*. Restricted facilities, such as an executive lounge or dining room, would always be subject to the 50% limitation.

*Please note that the above information is a summary only and that all tax issues should be specifically investigated on a case by case basis prior to any placing any reliance on the above information. Please contact Canham Rogers to discuss these areas in more detail.*