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Lavish Expenses Are A No-No, Unless You're The IRS

President John F. Kennedy said, “The slogan—‘It’s deductible’—should pass from our scene.” See [Special Message to Congress on Taxation, Apr. 20, 1961](#). JFK didn’t like expense accounts and business entertainment in the Mad Men era of the three martini lunch. But his message had broader implications, and more than 50 years later, “it’s deductible” can still sound obnoxious.

Spend freely and deduct it so someone else—American taxpayers—will pay the bill. If JFK were alive today he’d probably have something to say about the IRS scandal, too. The IRS is taking a beating over lavish expenses revealed in this [report](#).

Acting Commissioner Danny Werfel says the IRS did things differently back in 2010. Yet even if excesses are past tense, there’s plenty of fretting over audit findings, including the \$4.1 million spent on an Anaheim IRS conference. There were many “questionable expenses,” with some described as “lavish.”



That's curious, since tax rules make lavish expenses a no-no. Taxpayers can deduct **reasonable** business expenses, but **not** lavish or extravagant ones. What's lavish or extravagant? It depends.

How about an IRS Manager staying five nights in a \$1,499 a night Presidential Suite? See [Dep. IRS Commissioner Stayed 5 Nights in Presidential Suite Across Street from Disneyland](#). The Presidential Suite had a bedroom, living area, conference table, wet bar, and billiard table, according to the Treasury Inspector General for Tax Administration's [review](#). Fortunately, the posh suite was actually a bargain.

Three Disneyland hotels charged the IRS \$135 per room for the 2010 conference, including suites. But speaker fees and many perks are being criticized. And two employees were suspended over accepting free gifts. See [Two IRS Employees Put on Leave Over Conference](#).

You can't deduct expenses for entertainment that are lavish or extravagant. The IRS doesn't provide much guidance. An expense isn't lavish or extravagant if it is reasonable considering the facts and circumstances. Expenses will not be disallowed just because they are more than a certain amount or take place at deluxe restaurants, hotels, nightclubs, or resorts.

So what's lavish? It's sometimes defined as a business [expense](#) that is significantly higher than what is considered reasonable. Say a company pays triple the market rate for something. That amount may be a lavish or extravagant expense. That makes them—or at least the portion deemed lavish by the IRS—not [tax deductible](#).

And the mere fact that you might conduct business entertainment at a high-end restaurants or hotels doesn't mean it's lavish. Consider some of the [World's Most Extravagant Meals](#). Yet even if you **can** legitimately deduct it, that doesn't mean such spending is smart. See [Chinese official sacked after 'citizen journalists' expose extravagant banquet](#). And sometimes if you are spending in the stratosphere, you might expect the IRS to claim it's personal. See [Justin Timberlake & Jessica Biel's \\$6.5M Wedding: One Of The Most Expensive](#).

This does remind me of someone who spent \$3.46M for lunch with Warren Buffett. Now **that's** an expensive meal, even if it was to support [Glide Memorial Church](#) in San Francisco. That was for charity and was for up to 8

people, including Buffett, the donor, and up to six guests. Most of that \$3.46M should be deductible, but as a charitable contribution (in excess of the meal value), not as a business expense. [Should Warren Buffett's \\$3.46M Lunch Be Tax Deductible?](#)

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.