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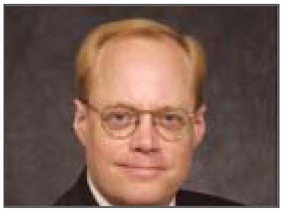

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Charging $476K For Strippers On Company Card? No Tax Deduction, Jail Instead

Sensibly, Credit.com says you shouldn't use your credit card for purchases you want to remain secret. Using your company credit card to buy something embarrassing–that you know your company won't cover–is even worse. Sure, if the company *really* likes you and you fess up right away, maybe you can cover the charge yourself. But trying to sneak it through or faking your expense report is likely to mean getting fired. Or even prosecution.

A Gilbert, Arizona man, John David Berrett, allegedly charged $476K for strippers on his company credit card. His employer turned him in for trying to cover it up with fake expense reports for work costs. Thus, "training materials" were actually sex toys, and $10,800 for training services was really for stripping. According to the indictment, Mr. Berrett faces five counts of wire fraud.

(AP Photo/Charlie Riedel)

Even celebs like Justin Bieber know cash is better. Last year, he allegedly dropped $75,000 in the King of Diamonds strip club. TMZ reported that Mr. Bieber "got $75k in 1 dollar bills and went wild." Maybe Mr. Bieber was out entertaining his record producers or recording execs? That kind of thing does show up on expense report and even on tax returns. After all, isn't a big bar tab or restaurant bill deductible?

It depends. Entertaining business associates has limits. Taxpayers can deduct *reasonable* business expenses, but not lavish or extravagant ones. If entertainment is *business* entertainment, it might be OK if it wasn't lavish or extravagant. What's 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. Lavish is 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. The portion deemed lavish by the IRS is not tax deductible.

Of course, the mere fact that you might conduct business entertainment at a high-end restaurants or hotels–or even strip clubs–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. Besides, if you are spending in the stratosphere, you might expect the IRS to claim it's personal.

For a creative attempt to claim business expenses, take Ralph Louis Vitale, Jr., who took on the IRS in Tax Court in 1999. He claimed he was in the business of writing about prostitution. How did he begin his research? You guessed it. He paid prostitutes in cash, apparently a kind of industry standard. Still, he kept a detailed journal of his numerous research visits.

Vitale submitted his manuscript to a vanity publisher, paying $4,375 to publish it. After he received $2,600 in royalties, the publisher went bankrupt. The IRS said this was a hobby and disallowed Vitale's deductions. Vitale went to Tax Court which ruled he did have a profit motive. Still, he had no receipts, so he got no deduction. Even so, at least the court didn't impose penalties, ruling that Vitale made a reasonable attempt to comply with the tax laws.

For alerts to future tax articles, email 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.