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New Rules for Entertainment Expenses Take Effect

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New Rules for Entertainment Expenses Take Effect

New Italian rules for the deductibility of corporate entertainment expenses entered into force on January 15.

Decreto Ministeriale of November 19, 2008, states that all business expenses must satisfy the general deductibility test of being ordinary and necessary to carrying on the business as well as a second level of tests specifically applicable to entertainment expenses.

The entertainment must be reasonable and provided free of charge. Also, entertainment expenses incurred must be for the purpose of furthering the growth or development of the business. The Italian tests are similar to the ''associated with'' active conduct of business test of U.S. Internal Revenue Code section 274, a test that is easier to meet than the ''directly related'' test set forth in the same IRC section.

Under the new law, once the expenditure qualifies, it is deductible only to the extent the aggregate cost falls within certain brackets. Specifically, the deduction for entertainment expenses will be the sum of:

- 1.3 percent of a taxpayer's sales up to €10 million;
- 0.5 percent of a taxpayer's sales exceeding €10 million up to €50 million; and
- 0.1 percent of a taxpayer's sales in excess of €50 million.

Under the previous law, one-third of entertainment expenses were deductible in the fiscal year when incurred or in equal portions in the same fiscal year and in the following four fiscal years. (For a previous release, see *Doc 2007-28278* or *2008 WTD 1-22*.) ◆

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