

Japan Tax Bulletin

Entertainment expenses

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In order to revitalize the economy through increased consumer spending, from accounting periods beginning on or after April 1, 2014, 50% of entertainment expenses spent on food and drink has been treated as tax deductible expenses. However, corporations whose capital is JPY100 million or less are able to choose to deduct 100% of all entertainment expenses up to JPY8 million instead of the 50% food and drink deduction described above (This is not applicable to a corporation held 100% by a parent company with capital of JPY500 million or more).

1. Definition of entertainment expenses

Entertainment expenses include reception expenses, secret expenses, business dinners, wining and dining, gifts to the customer, and other similar expenditure etc. For example, the expenses below are treated differently for tax purposes:

- Expenses for the benefit of employees relating to athletic festivals, theatrical entertainment and travel expenses
- Food and drink expenses (excluding food and drink expenses for internal directors/employees) of JPY5,000 or less per person.
- Small gifts such as calendars, journals, Japanese fan, paper fan etc.
- Light refreshments, lunch boxes (*Bento*) at a meeting (including negotiating a business deal), which is equivalent to lunch.
- Expenses for discussion meetings for the purpose of publications such as newspapers, magazines or editing of broadcast program.
- Other than the above, expenditures falling under donations, advertisement, discounts and rebates, welfare expenses, personal costs, etc.

2. Example of food and drink expenses

Items which are included in food and drink expenses are as follows:

- Lunch boxes (*bento*) for the purpose of business, company events etc.
- Food and drink taken home after eating at restaurant
- Table charges, service fees at restaurant

Items which are not included in food and drink expenses include:

- Gift baskets of food
- Food and drink at a golf course
- Transportation costs on the way to a restaurant

3. Food and drink expenses of JPY5,000 per person

3.1 Calculation

The calculation used is as follows:

$$\frac{\text{Total food and drink expenses}}{\text{number of attendees}} = \text{Cost per person}$$

If the cost per person is more than JPY5,000, the total amount is treated as entertainment expense for tax purposes. Food and drink expenses where the participants are only internal directors/employees are not subject to the calculation.

When calculating the amount, the treatment of consumption tax depends on the company's accounting method. Therefore, if the company uses a consumption tax inclusive accounting method, whether the food and drink amount is more than JPY5,000 is judged including consumption tax.

3.2 Record-keeping requirements

In order to deduct food and drink expenses which are JPY5,000 or less for tax purposes, it is necessary to keep a records as follows:

- The date of the expense.
- The company's name or person's name for attendees at the event
- The number of attendees
- The amount of food and drink expenses and restaurant name and location
- Other relevant information

4. Calculation of deductible entertainment expenses

The allowable deductible limit for entertainment expenses is different depending on the size of company and the kind of expense. A small or medium-sized company(*), can choose:

- A) 50% of food and drink expenses (and all other entertainment expenses are non-deductible), or
- B) 100% of the first JPY8 million of all entertainment expenses (the excess being non-deductible).

Companies other than small or medium sized companies can only use the limit at A above

(* Excluding a company which is 100% held by a company whose capital amount is JPY500 million or more.





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