

Is there any tax benefit to purchasing promotional products?

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As the tax code grows more complex, we become lost in a myriad of rules. By considering how your purchase is used, you will be able to understand its tax treatment. First you must identify your purchase by its basic purpose, personal, business, or charitable. Then you must determine if your use of the product allows you a deduction for its cost.

Examples:

Personal - generally, personal items are not tax deductible.

1. If your family is planning a reunion and you purchase clothing and other products to commemorate the event, your purchase is personal. No tax benefit is available.
2. If your child's school requires you to purchase uniform clothing items or other gear for daily attire or athletic programs, your purchase is personal. No tax benefit is available.

Business

1. As an employer, if you require your staff to wear uniforms while they are at work or work related activities, the company's purchase is for business purposes. The company will be allowed a tax deduction for the total cost of the items on the business income tax return.
2. As an employer, if you require your employees to purchase uniforms which they are required to wear at work or work related activities, the employees' purchase is for business purposes. The employees may be allowed a tax deduction for the total cost of the items on their personal income tax return. However, certain tests must be met in order for the deduction to qualify. Additionally, should the deduction be allowed, it is treated as a miscellaneous itemized deduction. In order for them to benefit from the deduction, the cumulative total of all miscellaneous itemized deductions must exceed 2% of their Adjusted Gross Income (AGI). It is the excess of 2% which may provide the tax benefit.
 - a. The clothing must be worn as a condition of employment, *and*
 - b. The clothing is not suitable for everyday wear.
3. As an employer, you require your employees to purchase computer bags and portfolios for carrying company equipment and work outside of the office. Whether the employer or the employee purchases the item, the person who makes the purchase deducts it on their income tax return. However, the employee must deduct the purchase as a miscellaneous itemized deduction, subject to the 2% AGI limitation.

Charitable

1. You are a Boy Scout leader. As such, you must wear the uniform to all Scouting functions. The cost of your uniform is deductible as a volunteer expense.
2. You have decided to donate uniforms for an inner-city youth sports program. The cost of the purchase is deductible as a charitable contribution if the organization is a qualified charity, as recognized by the IRS. However, if your purchase exceeds \$250, be sure to get a contribution letter from the receiving organization before you file your income tax return, or your deduction will be disallowed.

This basic guide should help you to understand how you might apply the tax code to your situation. However, as it represents a general overview of tax developments, it should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.

DISCLAIMER: Any tax advice contained in the body of this article was not intended or written to be used, and cannot be used, by the reader for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

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