

Entertainment Expenses are often overlooked or miscalculated; not to mention controversial.

Internal Revenue Code Section 162(a) states, "There shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business. An expense is ordinary and necessary if it is customary or usual within a particular trade, business or industry. (*Deputy v. Du Pont*, 308 U.S. 488, 495 (1940)). An expense is necessary if it is appropriate and helpful for the business. (*Commissioner v. Heininger*, 320 U.S. 467, 471 (1943)).

Generally, the term "ordinary and necessary" as it applies to ministers are any expenses that, 1) Improves the minister's professional skills, or, 2) Improves the minister's professional relationships. Building relationships is among the primary tasks of a minister's profession. One of the best ways to build professional relationships is entertaining in the minister's home.

Ministers are often reluctant to report business entertainment at home as a business expense. This is a mistake. The expense is real and legitimate. Besides being conducive to effective ministry, business entertainment at home is economical. It saves the church money over the cost of restaurant entertainment.

The second highest professional expense for most ministers is business meals and entertainment. This is because of the personal and family nature of ministry and because of the work schedules of church lay leaders, whom the minister must see periodically during weekday working hours. If the church does not reimburse these expenses, only 50% are deductible by the minister on his or her tax return.

A case could be made for a correlation between church growth and the cost of business meals and entertainment incurred by a minister. No formal study has been done on this issue, so far as we know, but it appears to be so. A minister, who actively reaches out to individuals and families, meeting them in homes and public places, develops strong and positive relationships.

A considerable amount of entertaining for ministry purposes is typically done at home. Unlike the business situation of any other profession, many church and religious rituals and traditions revolve around home and shared meals. The home setting is appropriate and conducive to pastoral ministry since ministry is often oriented toward home and family. It generally involves families and small groups rather than individuals. The historic, unique role of the minister's spouse -- usually unpaid and often the unheralded "associate pastor" -- is a major factor in both the appropriateness and economy of home entertainment for ministry purposes. Home entertaining is more economical than restaurants. This is beneficial to the church as well as the minister.

Conclusion: It is my opinion that a pastor's "open house" entertainment expenses are not only legitimate business expenses pursuant to Code Section 162. It is to the church's advantage to encourage ministers' professional relationships through entertainment and to fully reimburse their minister for all entertainment expenses incurred by their minister. This assumes that a goal of the church is church growth.