IRS Eases Rules for Deduction of Employee Bonuses

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The Internal Revenue Service recently released a Revenue Ruling allowing an employer using an accrual method of accounting for income tax purposes to take a deduction in the current year for a fixed total amount of bonuses payable to a group of employees, even though the employer does not know which of the employees will receive a bonus or the amount of any particular bonus until after the end of the taxable year. A current year deduction is allowed where the total amount of the bonuses is determinable through either (1) a formula that is fixed prior to the end of the taxable year, or (2) other corporate action made before the end of the taxable year that fixes the bonuses payable to the employees as a group. The Revenue Ruling is available here.