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Balance sheet

Meals and Entertainment

By Alex Archambeau

Before 2018, businesses could generally deduct 50% of business-related meal and entertainment expenses. The Tax Cuts and Jobs Act (TCJA) eliminated the deduction for entertainment expenses incurred after 2017. Business-related meal expenses, on the other hand, remain 50% deductible. That raised an important question: Are food and beverages purchased while entertaining clients considered customers' entertainment expenses that are no longer deductible or business-related meal expenses that continue to be 50% deductible?

Recognizing the issue, the IRS clarified that food and beverages purchased while entertaining clients continue to be 50% deductible under the longstanding requirements, but only if they are purchased separately or stated separately on the bill, invoice, or receipt.

For example, if you take a client to a ball game and purchase tickets in a suite where food and beverages are provided, none of the ticket price is deductible unless the cost of the food and beverages are stated separately on the bill, invoice, or receipt. In that case, 50% of the food and beverage costs are deductible, while the rest of the ticket cost is a non-deductible entertainment expense. Of course, the IRS warns that the entertainment disallowance rule cannot be deceived by inflating the amount charged for food and beverages.

Meal and Entertainment Expenses NOT Subject to the 50% Limit

You may deduct meals provided to employees. If the food or beverages you provide to employees qualify as a *de minimis* benefit (that is, they are small amounts provided occasionally), you are not held to the 50% limit. You can deduct the full cost. Examples of food and beverages for employees might be coffee and donuts at a staff meeting or an occasional pizza if employees must work overtime.

It is important to remember that the longstanding rules for entertainment-related meals continue to apply, specifically, to be 50% deductible, the expenses must not be lavish; you or one of your employees must be present at the event; and the person being entertained must be a current or potential business customer, client, consultant, or similar business contact. Also, business must be conducted during the event (or immediately before and after) and the time, place, business purpose, and business relationship of the attendees must be documented.

Because these expenses often happen while you are traveling, it may be difficult to keep good records, but it is important to record all details about the business purpose for these expenses in case of an IRS audit.

Please contact us if you have additional questions regarding the deductibility of meal and entertainment expenses for tax purposes.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision. You cannot rely upon this information for avoiding tax penalties.

