



January 31, 2018

Tax Reform Alert: Meals and Entertainment Expenses

The Tax Cuts and Jobs Act made changes to the tax law by limiting certain deductions. While many businesses will likely see an overall federal tax decrease because of wider tax brackets and lower tax rates, food and beverage (hereafter referred to as meals), and entertainment expense deductions were curtailed.

What Has Changed?

Entertainment Expenses

The Act makes entertainment expenses, including facilities used for such activities, 100% nondeductible, even if these expenses directly relate to, or are associated with, the conduct of business. Previously, entertainment was 50% deductible.

Hence, all forms of business entertainment, including golf outings, fishing, sailing, sporting events, hunting, theater tickets, license fees paid to sporting arenas, golf club dues, etc. are entirely nondeductible, even if a substantial and bona fide business discussion is associated with the activity. Taxpayers may still deduct 50% of food or beverages incurred at such events, but only if they can prove that business was conducted and substantiate the food or beverage expense.

Company Cafeterias

Only 50% of an employer-operated eating facility (cafeteria) costs will be deductible through 2025. No deduction is allowed starting in 2026. Previously, such costs were 100% deductible.

Convenience of Employer Meals

Certain meals provided on premises for the convenience of the employer are now 50% deductible as compared to 100% under the old law. A complete discussion of the criteria necessary for this deduction is beyond the scope of this article, but generally, such meals being provided needed to be for substantial non-compensatory business reasons. For example: meals furnished to employees during working hours because there are insufficient eating facilities in vicinity of employer's premises (remote rural areas).

De Minimis Meals

Meals provided on premises on an occasional basis are now 50% deductible as compared to 100% under the old law. Examples: break food provided during the day, occasional meals during meetings, pizza, donuts, etc. Note: value of meals is to be small and administratively impractical to track.

What Has Not Changed?

Expenses That Remain 100% Deductible

1. Meals made available to the general public. Examples: coffee and cookies in the lobby
2. Qualified employee recreation, social or similar activities (including facilities) primarily for the benefit of employees. Examples: Employee holiday parties, team building events, employee recognition events.

Expenses That Remain 50% Deductible

1. Expenses directly related to business meetings of employees, shareholders and agents, or directors. Examples: Employee travel meals, client meals.
2. Expenses directly related and necessary to attend business meetings or conventions for business leagues, chambers of commerce, real estate boards, boards of trade, and any entity that is tax-exempt.

Summary

Entertainment expenses are now 100% nondeductible while de minimis and convenience of the employer meals are now only 50% deductible. Please contact our office if you have questions.