

## **A Practical Approach to Tax Reform: Meals & Entertainment**

Earlier this month, the IRS issued guidance on the business expense deduction for meals and entertainment (Notice 2018-76) following law changes in the Tax Cuts and Jobs Act (“TCJA.”) The TCJA eliminated the deduction for any expenses related to activities generally considered entertainment, amusement, or recreation. The term “entertainment” includes entertaining at night clubs, cocktail lounges, theaters, country clubs, golf and athletic clubs, sporting events, and on hunting, fishing, vacation, and similar trips.

The IRS clarified that taxpayers may continue to deduct 50% of the cost of business meals if the taxpayer (or an employee of the taxpayer) is present and the food or beverages are not considered lavish or extravagant. The meals may be provided to a current or potential business customer, client, consultant, or similar business contact.

Food and beverages that are provided during entertainment events will not be considered entertainment if purchased separately from the event.

The term “entertainment” does not include activities such as (a) supper money provided by an employer to an employee working overtime, (b) a hotel room maintained by an employer for lodging of employees while in business travel status, or (c) an automobile used in the active conduct of a trade or business even though also used for routine personal purposes such as commuting to and from work.

### Examples:

1. Business owner invites a business contact to a baseball game. The business owner purchases tickets for himself and the business contact, and while at the game, buys hot dogs and drinks.
  - The cost of the game tickets is an entertainment expense, and is not deductible. The cost of the hot dogs and drinks, which are purchased separately from the game tickets, is not an entertainment expense and is 50% deductible.
2. Business owner invites a business contact to attend a basketball game in a suite, where they have access to food and beverages. The cost of the basketball tickets, as stated on the invoice, includes the food and beverages.
  - The basketball game is an entertainment expense, and is not deductible. The cost of the food and beverages, which are not purchased separately from the game tickets, is not stated separately on the invoice. Thus, the cost of the food and beverages also is an entertainment expense, and the business owner may not deduct any of the expenses associated with the basketball game.

The chart on the next page highlights common meals and entertainment expenses, and their tax treatment under previous law vs. new law. We suggest that you review your 2018 meals and entertainment transactions, and consider creating separate general ledger accounts to separate the 0%, 50%, and 100% deductible amounts.

	<b>Previous Law (2017)</b>	<b>New Law (2018)*</b>
<b>Entertainment</b>	Expenses: 50% deductible. <ul style="list-style-type: none"> <li>• Sporting, concert, or other events.</li> <li>• Greens fees.</li> <li>• Meals as part of entertainment (meals cost not separately stated.)</li> </ul>	No deduction for entertainment expenses (0% deductible.)
<b>Employee Business Meals</b>	Expenses: 50% deductible. <ul style="list-style-type: none"> <li>• Meals where taxpayer (or an employee) is present.</li> <li>• The expense is not lavish and extravagant under the circumstances.</li> </ul>	No change (50% deductible.)
<b>Meals Provided for Employer Convenience</b>	Expenses: 100% deductible. <ul style="list-style-type: none"> <li>• Expenses related to an on premise cafeteria.</li> <li>• Meals ordered for a staff meeting.</li> <li>• Employer's cost of providing meals to employees working overtime.</li> <li>• Meals ordered at a training seminar or conference.</li> </ul>	50% deductible until 2025. After 2025, nondeductible.
<b>Employer-Provided Snacks</b>	Expenses: 100% deductible. <ul style="list-style-type: none"> <li>• Coffee/drinks/snacks provided to employees.</li> </ul>	50% deductible until 2025. After 2025, nondeductible.
<b>Company Holiday Parties &amp; Social Events</b>	Expenses: 100% deductible, if offered on a non-discriminatory basis. <ul style="list-style-type: none"> <li>• Expenses for office holiday parties.</li> <li>• Expenses for recreational or social activities.</li> <li>• Company picnics or happy hours.</li> </ul>	No change (100% deductible.)
<b>Partner/Peer Expenses</b>	Expenses: 50% deductible. <ul style="list-style-type: none"> <li>• Expenses related to a partner meal with a peer, where business matters are discussed.</li> </ul>	No change (50% deductible.)
<b>Employee Travel Meals</b>	Expenses: 50% deductible. <ul style="list-style-type: none"> <li>• Meal expenses for employees while travelling.</li> </ul>	No change (50% deductible.)
<b>Client Business Meals</b>	Expenses: 50% deductible. <ul style="list-style-type: none"> <li>• Meal expenses where a taxpayer and a client discuss business, on- or off-premises.</li> </ul>	No change (50% deductible.)

\* As of the date of this alert, the IRS expects to publish regulations clarifying when business meals are deductible and what constitutes entertainment. The chart above reflects our current interpretation, and is subject to change upon issuance of future IRS regulations.

As is often the case, taking advantage of all deductions requires careful consideration and planning. Please contact us so that we may assist you in calculating the highest possible deduction.

## About Us

GMS Surgent is a mid-sized, full service, certified public accounting and advisory firm serving business and individual clients located primarily in (but not limited to) the Greater Philadelphia area. We warmly invite you to click around our website to learn a little more about our firm, our clients and the ways in which our services could benefit you.

"Personal Attention – Valuable Results", is the principal component of our mission statement. It highlights the GMS Surgent commitment to forging strong relationships and ensuring constructive communication while earning consistently effective results for our clients. It plays an essential role throughout every aspect of our firm, guides our actions and acts as a benchmark for the services we provide.

This information is of a general nature. It may omit many details and special rules and is current only as of its published date. Please contact us for more information and how it pertains to your specific tax or financial situation.