

Guidelines for Deducting Business Meals

The Tax Cuts and Jobs Act (TCJA) eliminated most tax deductions for business-related entertainment, beginning in 2018. It also created confusion over the continued deductibility of business meals. Late last year, the IRS issued a notice clarifying that taxpayers may continue to deduct 50% of eligible business meal expenses and providing temporary guidance on the subject. Businesses may rely on this guidance until proposed regulations become effective.

Five-Part Test

The notice sets forth a five-part test to determine whether business meal expenses are deductible. Taxpayers may deduct 50% of an otherwise allowable business meal expense if:

1. The expense is an ordinary and necessary business expense;
2. The expense is not lavish or extravagant under the circumstances;
3. The taxpayer, or an employee, is present;
4. Food and beverages are provided to a current or potential business customer, client, consultant or similar business contact; and
5. In the case of food and beverages provided during or at an entertainment activity, the food and beverages are purchased separately from the entertainment or their cost is stated separately on one or more bills, invoices or receipts. The meal cost must also be reasonable; That is, you cannot circumvent the disallowance of entertainment deductions by inflating the charges for food and beverages.

The notice provides several examples to illustrate the deductibility of meal expenses at an entertainment event. For example, you invite a business contact to a baseball game. You buy the tickets and, at the game, treat your guest to hot dogs and drinks. Although the tickets are a nondeductible entertainment expense, the hot dogs and drinks, which are purchased separately, are 50% deductible.

Now, suppose that you and your contact attend the game in a corporate suite, which provides food and beverages. If the invoice for the suite covers the entire expense, without separately stating the cost of food and beverages, the entire amount is a nondeductible entertainment expense. But if the invoice separately states the cost of food and beverages, that cost is 50% deductible (provided it is reasonable).

Certain Expenses Remain Deductible

The IRS notice focuses on business meals and entertainment activities with current and prospective customers and other business contacts. But several other types of expenses remain deductible after the TCJA. For example:

- Meal expenses while traveling on business continue to be 50% deductible;
- Meal and entertainment expenses may be 100% deductible if they are treated as compensation to employees or income to nonemployees; and

- Reasonable expenses for company recreational or social activities, such as holiday parties and picnics, continue to be deductible. You can deduct 100% of the cost of both meals and entertainment, as long as an activity primarily benefits employees other than officers, owners or highly compensated employees.

Previously, certain meals provided to employees were fully deductible, including meals provided so employees can work overtime and meals furnished on or near the employer's premises (including certain operating expenses for on-premises dining facilities). The TCJA imposes a 50% limit on these deductions through 2025, after which they are disallowed entirely.

Know the Rules

If you incur business-related meal and entertainment expenses, familiarize yourself with current rules on their deductibility and document your expenses carefully. And be sure to keep an eye on regulatory developments that may change the rules.

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See video by Price-Waterhouse for more information on meals deductions for taxes [here](#).

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