



Changes related to Meals and Entertainment under the recent Tax Reform Act

Businesses should be aware of the stricter limits on the deductibility of business meals and entertainment expenses under the new law. Entertainment expenses incurred or paid after December 31, 2017 are nondeductible unless they fall under the specific exceptions in Code Section 274(e).

One of those exceptions is for “expenses for recreation, social, or similar activities primarily for the benefit of the taxpayer’s employees, other than highly compensated employees.” (For example, office holiday parties are still deductible).

Business meals provided for the convenience of the employer are now only 50% deductible whereas before the Act, they were fully deductible. Barring further action by Congress, those meals will be nondeductible after 2025.

The chart below is a comparison of the expense rules under previous law, and the new reform act.

| | 2017 Expenses (Old Rules) | 2018 Expenses (New Rules) |
|--|--|--|
| Office Holiday Parties, Summer Office Picnic | 100% deductible | 100% deductible |
| Entertaining Clients | 50% deductible <i>Event tickets, 50% deductible for face value of ticket; anything above face value is non-deductible</i> | No deduction for entertainment expenses <i>Tickets to qualified charitable events are 100% deductible</i> |
| Business Meals -- Employee Travel Meals | 50% deductible | 50% deductible |
| Meals Provided for Convenience of Employer | 100% deductible provided they are excludible from employees’ gross income as de minimis fringe benefits; otherwise, 50% deductible | 50% deductible (will be nondeductible after 2025) |
| Fringe Benefits | Businesses could deduct the cost of employee parking and transit passes reimbursements, and employees could exclude the benefit from income. | No longer deductible by Businesses. However, employees can still exclude the benefit from their income. |
| Fringe Benefits Employee achievement awards | Employee achievement awards could consist of anything within a dollar limit of \$400 per award, a \$1600 yearly limit to the same employee. | The employee achievement awards must be tangible personal property and not cash. Also, cannot be gift cards, coupons or certificates, meals, vacations, lodging, or stocks and bonds. The dollar limits remain. |