

May 31, 2018

Meals and Entertainment Expense for 2018

The Tax Cuts and Jobs Act of 2017 make significant changes to the deductibility of business meals and entertainment starting in 2018.

At a high level, entertainment expenses are no longer deductible and most meals are 50% deductible. Previously, entertainment expenses were 50% deductible and a broad array of meals had the potential to be 100% deductible. We anticipate this area of tax reform will be heavily scrutinized by the Internal Revenue Service. It is important that taxpayers properly record and differentiate their activities. For those who are our clients, the information submitted to us for use in tax return preparation must be submitted as follows. The following is a sample listing of the categories you need to use:

Entertainment

No tax deduction is allowed for entertainment, amusement or recreation expenses. This includes tickets to not-for-profit high school or college sporting events, leased skyboxes for sporting events, transportation to/from sporting events, cover charges, tips and parking for entertainment events. These types of expenses should be classified as **ENTERTAINMENT**.

Entertainment Mileage

Mileage in connection with entertainment activities is nondeductible and therefore treated as personal.

MEALS

Meals with Clients

In order for meals to be considered as 50% deductible, business must be discussed during the meal and should be classified as **MEALS**. If no business is discussed, the meal is not deductible for tax purposes and thus should be entered as **ENTERTAINMENT**. There must be written substantiation in order to claim **MEALS**.

Meals with Coworkers

Meals with employees or coworkers where business is discussed are considered 50% deductible and should be classified as **MEALS**. There must be written substantiation in order to claim a deduction. If no business is discussed, the meal is not deductible for tax purposes and thus should be entered as **ENTERTAINMENT**.

Meals while Travelling

Meals when travelling for business and you are away from home overnight are considered 50% deductible and should be classified as **MEALS**.

Celebratory Meals

Company activities such as holiday parties, birthday and anniversary celebrations, picnics, end of tax season, etc., are fully deductible. In order to capture the 100% deductibility, these expenses should be classified as **MEALS-CELEBRATORY**.

Membership Dues/Fees

Generally, you cannot deduct amounts paid or incurred for membership in any club organized for business, pleasure, recreation or any other social purpose. This includes country clubs, golf and athletic clubs, hotel clubs, sporting clubs, airline clubs and clubs operated to provide meals under circumstances generally considered to be conducive to business discussions. These types of expenses should generally be classified as **NON-DEDUCTIBLE DUES**. We say generally, because membership in airline clubs may be purchased for other benefits such as reducing travel costs and time and aggravation such as bag fees and TSA fees.

The following organizations are not treated as clubs organized for business, unless one of the main purposes is to conduct entertainment activities for members or their guests or to provide members or their guests with access to entertainment facilities and can be classified as **PROFESSIONAL DUES AND MEETINGS**.

- Boards of Trade
- Business Leagues
- Chambers of Commerce
- Civic or Public Service Organizations
- Professional organizations such as
 - Bar Associations
- Trade Associations

Sponsorship Events

Payments for sponsoring events, such as charity dinners or golf outing, will require separately stating the following amounts: fair market value of entertainment, fair market value of meal and the remainder being classified as **SPONSORSHIP** which is deductible as advertising or marketing.

If the IRS issues further guidance on the topic we will notify you.

If you are our client, it is your responsibility to keep records according to the guidance provided in this newsletter. Good recordkeeping will help to maximize your tax deductions. Without good recordkeeping, when it comes time for tax preparation we will take the most conservative position unless approval is provided to incur additional time and fees to analyze your meals and entertainment costs.

As always, if you have any questions about these or any other matters, do not hesitate to call us.

Remember, We're Here For You!