

The new tax act established new limitations on the deductibility of certain business meals and entertainment expenses. Beginning January 1, 2018, entertainment expenses are nondeductible unless they fall under the specific exceptions under the new tax law. 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” (e.g, office holiday parties are still deductible). Business meals provided for the convenience of the employer are now only 50% deductible, whereas before the new tax law they were fully deductible. After 2025, those meals will be nondeductible. Businesses must continue to account for meals and entertainment expenses by classification in order to apply the appropriate limitation, with the addition of a new category in 2018 for “entertainment meals”. The following chart summarizes proper treatment for many types of meals and entertainment expenditures, under the law applicable both before and after the act.

Example	2017 Expenses (Old tax law)	2018 Expenses (New tax law)
Office Holiday Party or Picnic	100% deductible	100% deductible
Client Business Meals	50% deductible if taxpayer is present, and not lavish or extravagant	50% deductible if business is conducted, taxpayer is present, and not lavish or extravagant
Entertainment-related Meals	50% deductible	No deduction (e.g, meals incurred when no business is conducted, potentially at night clubs, cocktail lounges, theaters, country clubs, golf and athletic clubs, sporting events, and on hunting, fishing, vacation and similar trips)
Transportation to/from Restaurant for Client Business Meal	100% deductible	100% Deductible
Sporting Event Tickets	50% deductible for face value of ticket (anything above face value is non-deductible) 50% deductible for clubbox or suite expenses to the extent of non-luxury seat ticket face value in such box 100% deductible for charitable sports events Contributions for the right to purchase tickets to an educational institution’s athletic events 80% deductible 50% for transportation to/from and parking at sporting events	No deduction No deduction No deduction No deduction No deduction
Club Memberships	No deduction for club dues; however, 50% deduction for expenses incurred at a club organized for business, pleasure, recreation, or other social purposes if related to an active trade or business	No deduction

Meal & Entertainment Under the New Tax Law

Example	2017 Expenses (Old tax law)	2018 Expenses (New tax law)
Meals Provided for the Convenience of Employer	100% deductible provided they are excludible from employees' gross income as de minimis fringe benefits under §119(a); otherwise 50% deductible	50% deductible (nondeductible after 2025)
Meals Provided to Employees Occasionally and Overtime Employee Meals	100% deductible provided they are excludible from employees' gross income as de minimis fringe benefits under §132(e)(1); otherwise 50% deductible	50% deductible (nondeductible after 2025)
Water, Coffee & Snacks at the Office	100% deductible provided they are excludible from employees' gross income as de minimis fringe benefits under §132(e)(1); otherwise 50% deductible	50% deductible (nondeductible after 2025)
Meals in Office During Meetings of Employees, Stockholders, Agents, or Directors	50% deductible	50% deductible
Meals During Business Travel	50% deductible	50% deductible
Meals at a Seminar or Conference, or at a Business League Event	50% deductible	50% deductible
Meals Included in Charitable Sports Package	100% deductible	50% deductible
Meals Included as Taxable Compensation to Employee or Independent Contractor	100% Deductible	100% Deductible
Meals Sold to a Client or Customer (or Reimbursed)	100% Deductible	100% Deductible
Food Offered to the Public for Free (e.g., at a Seminar)	100% Deductible	100% Deductible

At a high level, entertainment expenses are nondeductible and most meals are 50 percent deductible. Previously entertainment expenses were 50 percent deductible and some of meals had the potential to be 100 percent deductible. We think that this area of the new tax law will be heavily scrutinized by the IRS. It is important that your employees properly document and describe their activities.

The following is a list of general ledger account classifications you may consider using:

- Entertainment
- Entertainment – meals
- Business Meals
- Travel
- Nondeductible membership dues/fees
- Professional dues and meetings
- Sponsorships

1. Meals with client

For meals to be considered 50 percent deductible business must be discussed during the meal and should be classified as: Business meals. If no business is discussed the meal is not deductible for tax purposes and thus should be classified as: Entertainment meals.

2. Meals with employees

Meals with employees/coworkers where business is discussed are considered 50 percent deductible and should be classified as: Business meals. If no business is discussed then the meal is not deductible and should be classified as: Entertainment meals.

3. Meals while traveling

Meals when traveling for business are considered 50 percent deductible and should be classified as: meals.

4. Company Activities/Celebratory meals

Company activities, such as holiday parties, birthday and anniversary celebrations, picnics, etc. are fully deductible. In order to capture the 100 percent deductibility, these expenses should be classified as: Business meals.

5. 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 clubboxes/suites for sporting events, transportation to/from sporting events, cover charge, taxes, tips and parking for entertainment events. These types of expenses should be classified as: entertainment.

6. 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 be classified as: nondeductible dues.

Exception: The following organizations are not treated as clubs organized for business, pleasure, recreation or other social purpose unless one of the main purposes is to conduct entertainment activities for members or their guest or to provide members or their guests with access to entertainment facilities and can 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

7. Sponsorship events

Payments for sponsoring events, such as charity dinners or golf outings, will require separately stating the following amounts: fair market value (FMV) of entertainment, FMV of meal and the remainder being classified as: sponsorship.

Following are examples of events we typically encounter and how they should be classified under the new tax law:

Example 1

You drive to meet a client or customer, have dinner with them where substantial business is discussed, attend a sporting event and you drive home. Below is how the expense should be classified:

Expenses for mileage to and from the time with the client: **Travel**

Dinner and/or drinks for the night: **Business meals**

Sporting event tickets: **Entertainment**

Example 2

You drive to meet a client or customer, attend a sporting event where substantial business is discussed and you drive home. Because the premise of the evening is to attend a sporting event below is how the expense should be classified:

Expenses for mileage to and from the time with the client: **Entertainment**

Drinks for the night: **Business meals**

Sporting event tickets: **Entertainment**

Example 3

You pay \$5,000 to attend a charity golf outing with prospects or customers where substantial business is discussed and the letter breaks out the fees as follows: hole sponsorship \$4,000, green fees \$500, lunch/drinks \$500. Below is how the expense should be classified:

Hole sponsorship: **Sponsorship**

Green fees: **Entertainment**

Lunch/drinks: **Business meals**

If the IRS issues further guidance on this topic that causes changes to the above procedures, Brinker Simpson will provide further communication and updates.

For more information on this topic, or to learn how Brinker Simpson professional services specialists can help, contact our team **610-544-5900** or visit our site below and subscribe to our blog.

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