

Guide to changes for the deduction of entertainment expenses and business meals after tax reform

The Tax Cuts and Jobs Act (TCJA) made several changes to the deductibility of entertainment expenses and business meals which limited “perks” used in the industry.

Prior Law: 50 percent of business related expenses for meals and entertainment were deductible.

Current Law: Entertainment expenses, even if they are directly related to or associated with substantial business discussions, are no longer deductible. This means tickets to sporting events (including donations for rights to college sports tickets), theatre tickets, and skyboxes or suites, can no longer be deducted. In February 2020, the IRS clarified that meals during entertainment events can be deducted as a separate receipt.

Additionally, membership dues to social and business clubs are no longer deductible. However, trade association dues were not affected by the TCJA and remain tax deductible.

Business meals, including meals while traveling, are still eligible to receive the 50 percent deduction, provided the meal is not “lavish or extravagant” according to the IRS.

Expenses for holiday parties or similar recreational/social activities for employees are still 100% deductible.

What this means for the industry: The TCJA reduced taxes for businesses in exchange for eliminating the deduction for these incentives. Each company will need to evaluate the costs and benefits of continuing incentive trips without the deduction for 50 percent of the cost of the entertainment.

Additionally, companies can look at alternative methods to attract customers utilizing existing tax deductions. The 50 percent deduction for business meals may still be used for business development. Marketing costs can also still be deducted; however, any event must include marketing from start to finish. A small business pitch at the beginning will not suffice.

The changes included in the TCJA altered the way the industry may utilize customer incentives. It is likely we will see new and creative ways to provide customer incentives. We will keep you updated as IRS guidance and tax court rulings develop.

See table on next page for examples of what can and cannot be deducted.

Meals and Entertainment discussing business	Percent Deductible		
	100%	50%	0%
Entertainment with customers and prospects			X
Year-end party for customers			X
Sporting or theatre tickets, golf outing, spa, etc. with customer(s)			X
Meals during entertainment with customers and prospects		X	
Meals with customers/prospects		X	
Meals with business partners, officers, or execs		X	
Meals while traveling outside normal commute		X	
Meals while traveling away from home overnight		X	
Employee meals for convenience of employer		X	
Employee meals for required business meetings		X	
Food provided in the business property**		X	
Year-end party for employees and spouses**	X		
Team building activities for employees	X		
Meals for general public at marketing presentation	X		
**The majority of employees attending/utilizing must be non-owners, officers, execs or highly compensated employees, if an event or food is meant for owners, officers, or executives it is not deductible			