

Meals and Entertainment Expenses

AS A RESULT OF THE TAX CUTS AND JOBS ACT



The Tax Cuts and Jobs Act (TCJA) imposes new limitations on meals and entertainment expenses that are deductible. The changes under the TCJA could have an impact on your tax position and modify how these expenses are recorded.

The deduction for meals is limited under the TCJA for expenses incurred or paid after December 31, 2017. Meals that are accompanied by entertainment, or where business is not discussed, are now nondeductible. Under prior law, these types of expenses were allowed a 50% deduction. Employee meals provided for the convenience of the employer are now 50% deductible and become completely nondeductible after 2025; prior to the TCJA they were fully deductible.

The TCJA also made changes to the deductibility of entertainment expenses. Entertainment expenses that are paid or incurred after December 31, 2017, are not deductible, unless they fall under a specific exception. One of these exceptions is for entertainment expenses that primarily benefit employees (e.g., office parties); these expenses remain 100% deductible. Golf fees, tickets to sporting events, and club dues are examples of entertainment expenses that are no longer deductible. Prior law allowed a 50% deduction for these entertainment expenses.

The following table summarizes how certain meals and entertainment expenses are treated before and after the Tax Cuts and Job Act.

ACTIVITY	2017 EXPENSES (OLD)	2018 EXPENSES (NEW)
<p>Employee snacks and beverages treated as de minimis fringe benefits (and therefore excluded from the employee's gross wages)</p> <p><i>Example: Coffee, juice, and bagels are provided for the employees by the employer in the breakroom.</i></p>	100% deductible	50% deductible Nondeductible after 2025
<p>Employee meals treated as fringe benefits (and therefore included in the employee's gross wages)</p> <p><i>Example: The company offers to coordinate meals during a stressful week and lets employees know the cost of the meals will be taxable to them as wages.</i></p>	100% deductible	100% deductible

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ACTIVITY	2017 EXPENSES (OLD)	2018 EXPENSES (NEW)
<p>Employee travel meals</p> <p><i>Example: An employee drives six hours to visit a client and must stay overnight. All meals the employee eats while traveling (breakfast, lunch, and dinner) are not lavish or extravagant.</i></p>	50% deductible	50% deductible
<p>Employee meals during off-site meetings or conventions</p> <p><i>Example: An employer pays \$15 for an employee to attend a monthly chamber of commerce meeting over the lunch hour.</i></p>	50% deductible	50% deductible
<p>Employee meals provided for the convenience of the employer</p> <p><i>Example: Lunch is provided during the monthly manager meeting.</i></p>	100% deductible	50% deductible Nondeductible after 2025
<p>Office parties without customers</p> <p><i>Example: Each summer, the business hosts a picnic for employees during the workday to celebrate a job well done.</i></p>	100% deductible	100% deductible
<p>Office parties with customers</p> <p><i>Example: Each year, the business hosts an after-hours party for the employees and the firm's most loyal clients.</i></p>	Cost per employee: 100% deductible Cost per customer: 50% deductible	Cost per employee: 100% deductible Cost per customer: nondeductible

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ACTIVITY	2017 EXPENSES (OLD)	2018 EXPENSES (NEW)
<p>Meals during business meetings with prospects or clients</p> <p><i>Example: An employee meets with a prospective client over lunch to discuss business. The lunch was not lavish or extravagant.</i></p>	50% deductible	50% deductible
<p>Meals during meetings (that are entertaining in nature) with prospects or clients</p> <p><i>Example: An important prospect is invited to a private tasting at a fancy restaurant with the CFO and CEO.</i></p>	50% deductible	Nondeductible
<p>Entertainment costs for prospects or clients</p> <p><i>Example: The firm invites a prospect to the next football game and buys tickets in a corporate box suite. Business and nonbusiness topics are discussed.</i></p>	50% deductible	Nondeductible
<p>Tickets to charitable fundraising events</p> <p><i>Example: The firm purchases a table at a local nonprofit's benefit fundraiser.</i></p>	Value of meal: 50% deductible Remaining ticket price: 100% deductible as a charitable contribution	Value of meal: nondeductible Remaining ticket price: 100% deductible as a charitable contribution

STEPS TO TAKE NOW

To account for these changes, we recommend at a minimum that you create a separate account for “entertainment” and a separate account for “meals.” If necessary, subcategorize expenses to accommodate the most common activities. Continue to collect the following documentation to corroborate deductions: (1) expense amount, (2) event date, (3) activity location, (4) purpose of business discussion, and (5) which employees and clients/prospects were included. Questions? Your CRI professional is ready to help answer any questions that may arise when reorganizing your expenses to align with the new TCJA limitations.