



HOT TOPICS ARTICLE 2018-01: 2018 Tax Change for Business Meals and Entertainment

In business, the concept of “Meals and Entertainment” has been a combined concept for decades. Accounting records typically carry one account with that name. Effective for expenses incurred or paid after 12/31/2017, you need at least two accounts, perhaps three, and procedures for capturing the amount of each, as follows:

1. Business meals
2. Employee on-site meals
3. Business entertainment

Historically, the IRS allowed deduction of 50% of the cost, under the general presumption that half was your own consumption or enjoyment and half was for the business person you were with.

New law:

1. Business **meals** continue to be 50% deductible
2. Employee meals, on the business premises, also 50% (was 100% in some circumstances)
3. Business **entertainment**, 0% deductible

Club dues continue to be 0% deductible. Included in “clubs” for this purpose are athletic, luncheon, sporting, airline, hotel, and social clubs. Professional or public service associations are not clubs.

Entertainment facilities continue to be 0% deductible, such as yachts, hunting lodges, and bowling alleys. Rental or usage fees of entertainment facilities should be classified to the Entertainment expense.

Companies and their accountants should exercise care in classifying expenses, under the new rules for transactions as of January 1, 2018.

Business meals – The cost of meals directly related to the active conduct of a trade or business, documented with the “5Ws” [who, what, where, when, why]. Also allowed is the cost of a meal that may not meet that definition but directly precedes or follows a substantial and bona fide business discussion and the expense is associated with the active conduct of a trade or business.

Business entertainment – The cost of shows, sporting events, entertainers, entertainment facilities used for the entertainment, and similar costs.

Would we suggest lightening up on documentation standards, the 5Ws, if the expense is not deductible? - Certainly not, as prudent business internal control over expenditures should include that documentation to protect the business. All personnel should continue to be held to internal control expectations, regardless of tax effect.

Business meals and entertainment – This phrase and concept should not be used, as it invites failure to properly classify expenses. Companies should change their Chart of Accounts and procedures to no longer use this.

Details – Will a company be expected to split apart the cost of events that include both, meals and entertainment? Will a company be expected to split apart the cost of a hotel bill that has meals added to the tab? What is the difference between recreational expenses for employees, and entertainment? Does it matter if the setting for employee recreation or parties is in an entertainment facility?

Answers: There are numerous details that are beyond this brief article. We can help, but not solve everything in one brief communication.

Hot Topics -

This article is a general information guide. Any action should be taken only with appropriate professional consultation specific to your situation.