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## Meals & Entertainment Business Expense Deduction - IRS Guidance Issued

Businesses that have deducted expenses for meals and entertainment must be aware of new rules imposing stricter requirements and eliminating many of the entertainment expenses businesses have historically deducted.

On October 3, 2018, the IRS issued guidance on the business expense deduction for meals and entertainment, implemented by the Tax Cuts and Jobs Act (the "TCJA") in late 2017.

Before the TCJA, businesses could generally deduct 50% of meal and entertainment expenses that were either (1) directly related to the active conduct of the taxpayer's trade or business or (2) directly preceding or following a substantial and bona fide business discussion.

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### **NEW RULES**

Now, businesses may not take any deduction for expenses whatsoever with respect to entertainment, amusement, or recreation. Entertainment is defined broadly by the IRS, and includes "entertaining at night clubs, cocktail lounges, theaters, country clubs, golf and athletic clubs, sporting events, and on hunting, fishing, vacation and similar trips."

Further, this change may also effect the ability of businesses to deduct expenses related to meals, food, and beverages which are furnished to clients. Businesses may continue to deduct up to 50 percent of the cost of business meals if the taxpayer (or an employee) is present and the food/beverage provided is not lavish or extravagant. For food and beverages that are purchased or provided by the taxpayer during entertainment events, the taxpayer must purchase the food and drink separately in order to continue to be entitled to any deduction. Bulk expenses which cover both entertainment and food (such as a box office at a baseball game that comes with food included) will not be permitted as deductible in any amount, unless the food and beverage is explicitly separated from the other costs of the entertainment.

### **CONCLUSION**

In the coming months, the IRS intends to issue further guidance on this issue. For more information, please see <https://www.irs.gov/pub/irs-drop/n-18-76.pdf>, or contact Meyer Capel, A Professional Corporation.