

An Update on the

TAX TREATMENT

of Meals & Entertainment Expenses



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The tax reform law known as the Tax Cuts and Jobs Act (TCJA) made dramatic changes to deductions for business meals and entertainment expenses. Starting Jan. 1, 2018, many of these deductions face new limitations and in some cases, are disallowed altogether. After a disruptive 2020, some business meals are now 100% deductible for the next two years to help restaurants recover from the COVID-19 pandemic. The change was made as part of the Consolidated Appropriations Act, 2021 (CAA). It offers a temporary reprieve from deduction limitations for business meals paid or incurred during 2021 and 2022.

100% Deductible for 2021-2022, if purchased from a “restaurant”

- Client business meals
- Entertainment-related meals
- Meals provided for the convenience of employer
- Meals provided to employees occasionally and overtime employee meals
- Water, coffee, and snacks at the office
- Meals in office during meetings of employees, stockholders, agents, or directors
- Meals during business travel
- Meals at a seminar or conference, or a business league event
- Meals included in charitable sports package



TO QUALIFY FOR THE 100% DEDUCTION:

- The meals must be purchased from a restaurant
- A restaurant is defined as a business that prepares and sells food or beverages to retail customers for immediate consumption, regardless of whether the food or beverages are consumed on the business's premises (catering and carryout meals are therefore covered).
- A restaurant does not include any business that primarily sells prepackaged food or beverages not for immediate consumption, including a grocery store; specialty food store; beer, wine, or liquor store; drug store; convenience store; newsstand; or vending machine or kiosk.
- A restaurant does not include employer-operated meal facilities, including those run by third parties.

STARTING JAN. 1, 2023, those meals expenses will revert back to being 50% deductible.

With the recent change — along with the modifications implemented in the TCJA— it may be confusing to know when to deduct business-related meals and entertainment expenses and for how much. To understand the bigger picture, the following chart illustrates how the deductions have changed over the past few years.

EVENT	OLD RULES (before 2018)	NEW RULES (starting in 2018)
Office Holiday Party or Picnic	100% deductible	100% deductible
Client Business Meals	50% deductible if taxpayer is present and not lavish or extravagant	<p>50% deductible if ordinary and necessary in carrying on business, taxpayer is present, provided to current or potential client or consultant, and not lavish or extravagant.</p> <p>2021-2022: 100% deductible if also provided by a “restaurant” – otherwise 50% deductible</p>
Entertainment-related Meals	50% deductible	50% deductible if charges are stated separately from the cost of entertainment (100% for 2021-2022 if also provided by a “restaurant”); no deduction otherwise
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 nondeductible)	No deduction
	50% deductible for skybox expenses to the extent of non-luxury seat ticket face value in such box	No deduction
Sporting Event Tickets	100% deductible for charitable sports events	No deduction
	Contributions for the right to purchase tickets to an educational institution’s athletic events are 80% deductible	No deduction
Sporting Event Tickets	50% for transportation to/from and parking at sporting events	No deduction

EVENT	OLD RULES (before 2018)	NEW RULES (starting in 2018)
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
Meals Provided for the Convenience of Employer	100% deductible provided they are excludible from employees' gross income as de minimis fringe benefits under Section 119(a); otherwise 50% deductible	2021-2022: 100% deductible if also provided by a "restaurant" – otherwise 50% deductible 2023-2025: 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 Section 132(e)(1); otherwise 50% deductible	2021-2022: 100% deductible if also provided by a "restaurant" – otherwise 50% deductible 2023-2025: 50% deductible (nondeductible after 2025)
Water, Coffee, and Snacks at the Office	100% deductible provided they are excludible from employees' gross income as de minimis fringe benefits under Section 132(e)(1); otherwise 50% deductible	2021-2022: 100% deductible if also provided by a "restaurant" – otherwise 50% deductible 2023-2025: 50% deductible (nondeductible after 2025)
Meals in Office During Meetings of Employees, Stockholders, Agents, or Directors	50% deductible	2021-2022: 100% deductible if also provided by a "restaurant" – otherwise 50% deductible After 2022: 50% deductible
Meals During Business Travel	50% deductible	2021-2022: 100% deductible if also provided by a "restaurant" – otherwise 50% deductible After 2022: 50% deductible

EVENT	OLD RULES (before 2018)	NEW RULES (starting in 2018)
Meals at a Seminar or Conference, or at a Business League Event	50% deductible	<p>2021-2022: 100% deductible if also provided by a “restaurant” – otherwise 50% deductible</p> <hr/> <p>After 2022: 50% deductible</p>
Meals included in Charitable Sports Package	100% deductible	<p>2021-2022: 100% deductible if also provided by a “restaurant” – otherwise 50% deductible</p> <hr/> <p>After 2022: 50% deductible (the exception provided under former Section 274(n)(2)(C), referring to former Section 274(l)(1)(B), was repealed)</p>
Meals included as Taxable Compensation to Employee or Independent Contractor	100% deductible	100% deductible
Meal Expenses 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



Meals & Entertainment Expenses

DEDUCTIBLE PROVISIONS GOING AWAY

The deductibility of the following expenses expires after 2025:

- Meals provided for the convenience of the employer
- Meals provided to employees occasionally and overtime employee meals
- Water, coffee, and snacks at the Office

PROVISIONS NOT AFFECTED BY THE TAX REFORM LAW

The following fully-deductible items remain the same:

- Meal expenses for a company picnic or holiday party
- Food made available to the public for free – usually as part of a promotional campaign
- Meals expenses included as taxable compensation to the employee or independent contractor and included on the W-2 or Form 1099
- Meals expenses that are sold to a client or customer

DOCUMENTING BUSINESS MEAL EXPENSES

Business meal expenses are deductible at the 50% or 100% rate so long as the meals are provided in the ordinary course of business, the taxpayer was present when the meals were furnished, and the expenses were not lavish or extravagant. Furthermore, business meals must be furnished to a current or potential customer, client, consultant, or similar business contact.

DOCUMENTATION IS STILL REQUIRED SO THAT A TAXPAYER CAN PROVE:

- The amount of the expenditure
- The time, date, and place of the expenditure
- The purpose of the business discussion
- The identification of the people who participated



FOR MORE INFORMATION

If you have questions about meals and entertainment expenses, please contact us.



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