

With the sweeping changes brought about by the Tax Cuts and Jobs Act getting a lot of media attention lately, there's been a lot of discussion on the individual provisions being majorly overhauled and the business provisions most likely to get reactions like the permanent corporate tax rate cuts. But of the lesser-known changes made to business taxes, there's one that isn't getting much press: the business entertainment deduction is dead, and it even includes meals out in most cases.

There's often been controversy and confusion with this deduction throughout time, in terms of why this deduction was deemed necessary and how people were using it.

## Why There's a 50% Limit on Meals and Entertainment

Whether you're a manager at a large firm or a solo business owner, you know that relationships are cultivated not just through meetings and phone calls but through getting together with people *as people*. Team-building activities with employees at fun venues teach skills and create memories that training sessions just can't, and for business owners and creative professionals who are constantly on the go there's often no better way to land a lucrative contract than discussing it over dinner and being inspired by a play or concert afterwards.

Congress realized this and allowed a deduction for meals and entertainment despite the highly personal elements which are unavoidable. And unfortunately, people seriously abused this deduction by claiming personal and/or very extravagant meals and outings.

The "three martini lunch" had been a regular part of business culture throughout the mid-20th century (which would be "It's wine o'clock somewhere!" given today's workplace culture and technology.) Then the tax reform in the Reagan years capped the meals and entertainment deduction at 50% of their cost with a few exceptions: if the event is for community goodwill (such as sponsoring a local charitable cause), or it's an essential part of your business function such as if you're a film reviewer, food blogger, or sports writer. The reasoning for this was that Congress understood why meals and entertainment were necessary for conducting and growing a business but felt that taxpayers shouldn't be on the hook for said three-martini lunch so the deduction was limited to 50% for meals and entertainment. Beyond the community goodwill and "essential part of business function" exceptions, the only other 100% deductions for meals and entertainment are for employers who host holiday parties on the premises as part of their pay or benefits, and meals furnished on the premises for the employer's convenience that would be considered a *de minimis* fringe benefit like morning coffee and donuts or free Seamless orders if employees are working late.

This is no longer the case in light of the new tax law.

## What Has Been Considered Business Entertainment?

Until now, in order to be deductible you had to keep substantial records that proved the entertainment took place in a "clear business setting" such as a designated corporate retreat or that you actively conducted business on this outing and had reasonable expectations to make money or get some other business benefit afterward. It was also deductible if the entertainment was directly before or after a substantial business meeting or discussion and was actually associated with your trade/business (meaning that if your client or colleague brought a friend or spouse, you could only deduct amounts for the former and yourself.)

So this could actually include some pretty out-there entertainment such as skydiving lessons, strip clubs, and other things beyond bar tabs, dinners out, and theater tickets! But it's less the type of entertainment that came into question that made it a regular audit target and more that proof of payment itself wasn't enough to take the deduction which is partly what led to its downfall.

## Changes Made By the 2018 Tax Reform

The only entertainment deduction that remained intact is parties held on the premises if you are an employer hosting it for your employees. There's no more deductions for off-site entertainment, amusement, and other recreational activity even if it's for fostering professional relationships and team-building.

As for meal deductions, you can no longer get a deduction for taking clients, prospects, and other business associates out for a meal or coffee. Employers providing meals for their convenience are now limited to 50% which the deduction to be completely eliminated by 2025.

The only other meal deduction that is intact for both employees and business owners is meals on business trips since you still have to eat while you're on the road. But if you're meeting up with a colleague and treating them, you still can only deduct your share.

Given the other benefits that business owners receive as a result of the tax bill's passage like the permanent reduction in corporate tax rates and the 20% deduction on profits from pass-through businesses available to most small business owners, it can surpass the benefits typically coming from deducting 50% of non-travel meals and entertainment and with less administrative burden than the constant IRS appeals and Tax Court cases resulting from failure to substantiate meals and entertainment expenses. There were taxpayers who [frequently deducted solo coffee shop visits and personal meals](#), and many who attempted to deduct their or children's weddings and birthday parties by inviting business associates which is why the death of the deduction has received support all over the political spectrum.