



## Business meal deductions: The current rules amid proposed changes

Restaurants and entertainment venues have been hard hit by the novel coronavirus (COVID-19) pandemic. One of the tax breaks that President Trump has proposed to help them is an increase in the amount that can be deducted for business meals and entertainment.

It's unclear whether Congress would go along with enhanced business meal and entertainment deductions. But in the meantime, let's review the current rules.

Before the pandemic hit, many businesses spent money “wining and dining” current or potential customers, vendors and employees. The rules for deducting these expenses changed under the Tax Cuts and Jobs Act (TCJA), but you can still claim some valuable write-offs. And keep in mind that deductions are available for business meal takeout and delivery.

One of the biggest changes is that you can no longer deduct most business-related entertainment expenses. Beginning in 2018, the TCJA disallows deductions for entertainment expenses, including those for sports events, theater productions, golf outings and fishing trips.

### 50% meal deductions

Currently, you can deduct 50% of the cost of food and beverages for meals conducted with business associates. However, you need to follow three basic rules in order to prove that your expenses are business related:

1. **The expenses must be “ordinary and necessary” in carrying on your business.** This means your food and beverage costs are customary and appropriate. They shouldn't be lavish or extravagant.

2. **The expenses must be directly related or associated with your business.** This means that you expect to receive a concrete business benefit from them. The principal purpose for the meal must be business. You can't go out with a group of friends for the evening, discuss business with one of them for a few minutes, and then write off the check.
3. **You must be able to substantiate the expenses.** There are requirements for proving that meal and beverage expenses qualify for a deduction. You must be able to establish the amount spent, the date and place where the meals took place, the business purpose and the business relationship of the people involved.

It's a good idea to set up detailed recordkeeping procedures to keep track of business meal costs. That way, you can prove them and the business connection in the event of an IRS audit.

### **Other considerations**

What if you spend money on food and beverages at an entertainment event? The IRS has clarified that taxpayers can still deduct 50% of food and drink expenses incurred at entertainment events, but only if business was conducted during the event or shortly before or after. The food-and-drink expenses should also be "stated separately from the cost of the entertainment on one or more bills, invoices or receipts," according to the guidance.

Another related tax law change involves meals provided to employees on the business premises. Before the TCJA, these meals provided to an employee for the convenience of the employer were 100% deductible by the employer. Beginning in 2018, meals provided for the convenience of an employer in an on-premises cafeteria or elsewhere on the business property are only 50% deductible. After 2025, these meals won't be deductible at all.

### **Plan ahead**

As you can see, the treatment of meal and entertainment expenses became more complicated after the TCJA. It's possible the deductions could increase substantially under a new stimulus law, if Congress passes one. We'll keep you updated. In the meantime, we can answer any questions you may have concerning business meal and entertainment deductions.